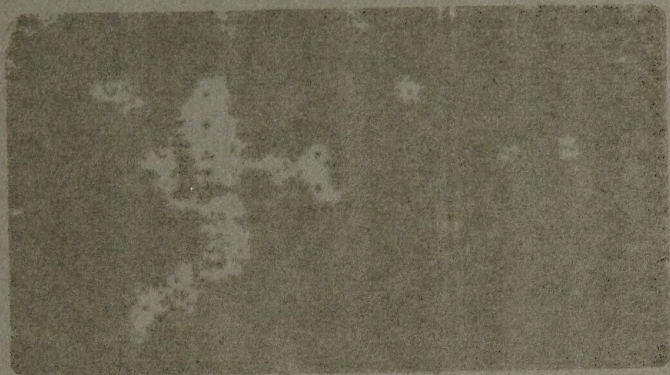




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(SESSION 1943)

CAI YC 2

(THE SENATE OF CANADA) -43 E16



PROCEEDINGS

OF THE

SPECIAL COMMITTEE

ON

ECONOMIC RE-ESTABLISHMENT
AND SOCIAL SECURITY

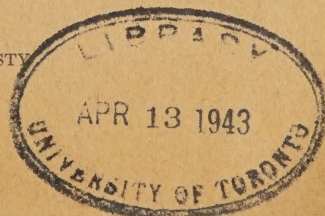
No. 1

The Honourable Norman P. Lambert, Chairman

WITNESS:

Dr. F. Cyril James, Chairman, Advisory Committee on Reconstruction

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943



ORDER OF APPOINTMENT

*Extract from the Minutes of the Proceedings of The Senate for the
5th March, 1943*

Ordered,—That a Special Committee be appointed to consider and report upon matters arising out of post-war conditions, particularly those relating to problems of reconstruction and re-establishment and a national scheme of social and health insurance; and that the said Committee have authority to send for persons, papers and records.

Ordered,—That the Special Committee appointed to consider and report upon matters arising out of post-war conditions, particularly those relating to problems of reconstruction and re-establishment and a national scheme of social and health insurance, be composed of 38 members, namely; the Honourable Senators Aseltine, Ballantyne, Beaubien (*Montarville*), Beaubien (*St. Jean Baptiste*), Blais, Buchanan, Copp, David, Donnelly, DuTremblay, Fallis, Farris, Gouin, Haig, Horner, Howard, Hugessen, Jones, King, Lacasse, Lambert, Leger, Macdonald (*Cardigan*), Macdonald (*Richmond-West Cape Breton*), MacLennan, McRae, Marshall, Michener, Murdock, Paterson, Paquet, Robertson, Robicheau, Sinclair, Smith (*Victoria-Carleton*), Stevenson, White and Wilson.

MINUTES OF EVIDENCE

THE SENATE,

OTTAWA, Wednesday, March 31, 1943.

The Special Committee appointed to consider and report upon matters arising out of post-war conditions, particularly those relating to a national scheme of social and health insurance, met this day at 11 a.m.

Hon. Norman P. Lambert in the Chair.

The CHAIRMAN: Ladies and gentlemen, it is a privilege and a great pleasure as well to have Principal James with us this morning. As you know he is the Chairman of the Advisory Committee on Reconstruction which has been established since 1941. In the course of his duties as chairman he has in the last couple of years covered this country about as thoroughly as anybody I know of, and has made a great many contacts. He will speak to us this morning by way of completing our review of the work that has already been done and of the committees that have been set up and anything else that he would like to suggest.

I will call on him now to be good enough to address us.

Dr. F. CYRIL JAMES (Chairman, Advisory Committee on Reconstruction): Senator Lambert, ladies and gentlemen, your chairman has suggested that, although you are, I am sure, familiar with most of the structure and background of the Committee on Reconstruction, I might take a few minutes at the beginning of our discussion this morning to review the development of this committee and its present structure and work.

The committee arose directly out of the Committee on Demobilization and Rehabilitation. Dr. Wallace, Mr. Stanley McLean and I were members of one of its subcommittees. In the autumn of 1940 we were working under P.C. 7633, with which you are all familiar, and it became increasingly apparent in the course of the discussions that the splendid scheme which was emerging from the hands of the Department of Pensions and National Health for the administration and rehabilitation of troops went only a certain distance. It took the men out of the Army, it rehabilitated them physically, technically and mentally, and put them in a position where they were ready to take a job.

But the major question which, of course, was worrying all of us was whether there were going to be jobs available, and that was the whole problem of Canadian post-war reconstruction. Mr. Mackenzie therefore asked a small group to study that problem unofficially and he asked me to undertake the chairmanship of it at that time. We began work unofficially within the Department, but in February of 1941, as a result of Order in Council 4068 $\frac{1}{2}$, the committee was formally established and charged to submit to the special committee of the Cabinet reports and recommendations respecting information received and consideration given, in order to keep the special committee of the Cabinet informed with respect thereto on all matters pertaining to reconstruction. We worked under that order for two years, and made some minor changes, with which I think I need not take up the time of the committee this morning. We conducted several discussions with the provincial governments in this country, the government of Great Britain and the government of the United States, and we presented various reports. As a result of the growing magnitude of the task the situation was reviewed last autumn, and, as you know, in January of this year two Orders in Council were passed,

608 and 609, the first charging the Economic Advisory Committee with certain new tasks which Dr. Mackintosh has explained to you, and the second reconstituting the Advisory Committee on Reconstruction as a committee to advise the Privy Council and report to the Prime Minister. That is the background. The committee at present consists of a group of men, with whose names, I am sure, you are already familiar.

One of the sub-committees of the Committee on Reconstruction to which I will refer briefly, because much of the preliminary work has been conducted by it, is the Sub-Committee to Study Problems of Canadian Agriculture, with particular reference to the need of raising the standard of living of all Canadians to a desirable nutritional level, and the probable developments in the international movement of Canadian agricultural products; and to recommend to the Committee on Reconstruction a comprehensive programme for the rehabilitation of Canadian agriculture at the end of the present war. That committee has explored carefully the existing situation in regard to the agricultural products, not only in regard to the nutritional demand but also in regard to meeting the demands of chemurgy, as well as various problems of marketing and agricultural organization.

Secondly, there is a Sub-Committee on the Conservation and Development of Natural Resources, presided over by Dr. R. C. Wallace, of Queen's University. This sub-committee also was appointed eighteen months ago, to consider and recommend to the Committee on Reconstruction the policy and programme appropriate to the most effective conservation and maximum future development of the natural resources of the Dominion of Canada, having regard to the importance of these resources as national assets, and emphasizing the part which the proposed policies may play in promoting employment opportunities at the end of the present war. The committee has held conferences in this room on two occasions with representatives from the provincial governments, and also from private enterprises which are actively interested. One meeting dealt with the forestry resources of the Dominion, and the other with the mining and minerals resources of the Dominion. It has explored through research and private conference many problems involved in the maintenance and the effective and profitable operation of our natural resources. Its members have travelled all across the Dominion to the West and have consulted with governments and private enterprises regarding the utilization of water power. They are at present planning a similar conference with governments in the Maritime Provinces, which will take place in April or early in May.

The third committee is a Sub-Committee on Post-War Construction Projects, under the chairmanship of Mr. K. M. Cameron, chief engineer of the Federal Department of Public Works. This sub-committee was appointed more than a year ago to study the extent to which a carefully formulated program of construction projects may contribute to the national welfare of the Dominion of Canada, as well as provide employment opportunities during the post-war period, and to report to the Committee on Reconstruction regarding the way in which such a program may be most effectively organized in advance of the termination of hostilities. The sub-committee has spent a great deal of time exploring the very difficult problems of the standards by which construction projects may be appraised. It is not enough to say that the Dominion Government or the Provincial governments should spend such-and-such an amount of money; it is not even enough to say that we will have a comprehensive program of road building or school building. It is necessary that there should be in some office in Ottawa a series of detailed specifications drawn up by engineers and architects for particular projects in particular locations, and it is necessary in each of these cases that we should know exactly the kind of construction required, the number of men needed

and the types of their skills, the quantities of raw materials, and the technical problems involved. The first basic conception is to specify clearly the things that would be required; that work is almost finished. The second is to explore the possibility of creating a proper organization which could supervise the analysis and classification of these various projects throughout the Dominion in consultation and co-operation with provincial governments and municipal authorities.

Fourthly, (I am taking these in alphabetical order) there is a Sub-Committee on Housing and Community Planning. This sub-committee is just six week old. It sits under Dr. C. A. Curtis, and is asked to review the existing legislative and administrative organization relating to housing and community planning, both urban and rural, throughout the Dominion of Canada, and to report to the Committee on Reconstruction regarding such changes in legislation or modifications of organization and procedure as may be necessary to ensure the most effective implementation of what the sub-committee considers to be an adequate housing programme for Canada during the years immediately following the present war. I need not discuss the obvious need for housing. There are two agencies of the Dominion Government interested in it, and many private agencies throughout the Dominion. The Committee will be concerned with the most necessary types of construction, much of which can be handled by private enterprise, but is impossible without a carefully prepared programme, in which the governments participate. I am hopeful that this committee by next autumn will be able to present to the Privy Council a report which envisages the best and most satisfactorily-developed policy on housing for the whole Dominion of Canada that has yet been envisaged.

Fifth, is the Sub-Committee on Post-War Employment Opportunities, which was originally under the chairmanship of Mr. Thomas Moore, whose illness all of us have regretted very deeply, and since that illness under the chairmanship of Mr. Percy Bengough. This sub-committee was asked to consider the most effective organization of employment opportunities in the post-war period, with special reference to the proper use of available labour, and in regard to legislation or practices affecting the length of the working period, and other relevant implications of the subject of reference, and to recommend to the Committee on Reconstruction specific plans regarding legislation or practices in this field. This sub-committee has carefully explored the questions of vocational training and apprenticeship, and the movement of labour. It has had under particular consideration the building industry, and is at present trying to work out a satisfactory policy for the recruitment of labour in the building industry in the post-war period.

Finally, the newest of our sub-committees is only a month old. It is under the chairmanship of Mrs. R. F. MacWilliams, of Winnipeg, and is charged to consider the special problems that women will face in the post-war period. Its exact terms of reference are: to examine the problems relating to the re-establishment of women after the war, and to make recommendations to the Committee on Reconstruction as to the procedure to deal with these problems and other matters relating to the welfare of women in the period of reconstruction. Mrs. MacWilliams hopes that her sub-committee will be able to present comprehensive recommendations through the main Committee to the Dominion Government in due course; but since it has as yet met only once, I am not going to prophesy.

I will leave with you a list of the members of these sub-committees. I do not think it is necessary to read the names.

Further, there have been carried out seventeen studies which were regarded by the Committee as essential to the understanding of the problem. I will describe them briefly, and will leave with you copies of these.

1. In co-operation with the League of Nations, the Government of the United States and the Government of Great Britain, we instituted a detailed

study of the sequence and timing of economic events after the 1914-1918 war, with the exact time at which the prices on individual commodities rose or fell, the exact condition of inventories, the periods during which scarcity existed and the way in which it was remedied. This gives parallel studies of the United States, Great Britain and Canada, and the general study which the League of Nations is making of conditions in central Europe, and will give us certain useful ideas in anticipating the probable pattern of developments at the end of the war, though it does not mean that we believe history will repeat itself exactly. That study is almost completed; the statistical and charting work is completed, and the text is being written up.

2. A study of governmental machinery, of war-time controls, and its relation to post-war problems, by Maxwell Cohen, is I think the only comprehensive statement I have seen of the various war-time controls instituted by the Dominion of Canada, analysing their probable effect in the post-war period, and dealing with some of the problems of de-control that will arise.

In that field of de-control it was necessary to analyse, or to have analysed, the exact problems that certain types of industry and agriculture would confront when the war was over, and it was necessary to make a detailed analysis in each case. Since we obviously could not start on twenty-five of these at the same time, we chose two problems.

3. One was the meat packing industry as an example of an industry that is fairly closely integrated and quite well organized in terms of standards and marketing procedure. That study was handled by Dr. Drummond.

4. At the other extreme is the building industry, highly decentralized, with a great number of enterprises and a great variety of standards, and with all of the problems of decentralization that could be confronted in any industry. That study was handled by Mr. Coote, and is finished. The study of the meat packing industry is also finished, except for a detailed discussion of the recommendations to the Privy Council.

5. A study of the changes in the location and extent of Canadian industry produced by wartime production expansion. We all know that there are new factories; we know, too, that there has been a movement of labour from one section to another. But it is obvious that we should have precise figures showing the nature and extent of the movement and the places where people now are. On the basis of that study, we shall be able to see the possibilities of developing permanent industries of a peacetime nature where wartime industries now are located. That study is being conducted by research assistants in our own office. Charts and some of the statistical tables are now ready, but the text is not quite finished.

6. A study of contemporary demographic movements underlying Canadian agricultural development, by Professor Hurd. This is now finished and makes a careful analysis of immigration, emigration and settlement in Canada during the past forty years, and an equally careful analysis of the movement as between town and country, with some final analyses of the present ages and occupational distribution of the agricultural population. That was regarded as a necessary background for any policy of land settlement and any policy designed to assist Canadian agriculture.

7. A study of available agricultural settlement areas in Canada. This is just beginning, under Professor Griffiths Taylor.

8. A study of the relation of nutritional standards to Canadian agriculture. This is an attempt to relate the various nutritional discussions back to the actual number of bushels of carrots, turnips, wheat and so on that Canada would have to produce to feed its population. This study is being made by a small inter-departmental committee, under the chairmanship of Dr. Leonard Marsh.

9. A report on the industrial utilization of agricultural products was made by Professor Macfarlane. The report gives a careful review of new developments in the United States, and contains the most up-to-date statement in regard to the effect of chemical, plastic and other new developments on Canadian agriculture.

10. A report on the administrative technique of a national public works program, made by the sub-committee on Post War Construction Projects, to which I have already referred.

11. A comprehensive report, by Mr. Firestone, on the construction industry as a field of employment. This is a careful analysis of employment in the construction industry, public and private, of the kind of people who are employed in it, of their apprenticeship and occupational preparation. An attempt is made to show the situation that we shall confront at the end of the war if any specific construction activity is entered into.

12. A type-study of conservation, entered into jointly, with the consent of the Privy Council, by the Committee on Reconstruction and the Government of the province of Ontario. It was decided by the committee that any discussion of conservation measures in the post-war period would have to get down to brass tacks, agree exactly on what could be done in certain areas, what the cost would be and the method of procedure. For those reasons it was decided to select, as a watershed area in need of rehabilitation measures, the river basin of the Ganaraska, which is a very denuded area that has suffered a great deal from erosion and deforestation, and jointly with the Government of Ontario to make a thorough study of the existing situation, of what could be done to remedy it and of what the precise costs would be. The preliminary analysis of that study has been going on for nearly a year now, and the final report will probably be ready in a few months. The information is collected, but it has not yet been put into editorial form.

13. A preliminary study of the pre-requisites of regional replanning in the St. Lawrence waterways, international section, by an engineer, Mr. Norman Wilson. This is a carefully laid-out picture of the effects of the proposed St. Lawrence waterways development on Canadian agriculture and industry in the surrounding areas.

14. A study by Professor Curtis on rent control in relation to post-war housing. As you probably know, the tremendous housing boom that occurred in Great Britain at the end of the last war, under the stimulus of private enterprise, though delayed quite substantially by inappropriate continuation of the rental control, contributed more to the post-war or post-1922 recovery in that country than any other factor. Professor Curtis is trying to analyse that situation and the Canadian situation, with a view to giving us certain factual information on which a post-war policy of rental control or de-control can be established.

15. A study by Dr. Jaffrey of unemployment assistance problems in the post-war world. This is an attempt to analyse how far our existing unemployment insurance mechanism will meet certain cases that will arise, and what additional public assistance may be required.

16. This is a supplementary report by Dr. Davidson on social welfare problems, that is to say, problems of freedom from want and freedom from fear which are not met, as Sir William Beveridge pointed out in his report, by any practical and conceivable scheme of social insurance, no matter how comprehensive it is.

17. This is a report with which I am sure you are familiar, the preliminary report on social security and suggestions for a programme for Canada, prepared for the committee by Dr. Leonard Marsh. This has become a public document, since it was submitted to the House of Commons Committee on Social Security a few days ago.

17. This is a report with which I am sure you are familiar, the preliminary documentation. The other report to which I refer has come in just this morning, and is a comprehensive survey of the educational needs of Canada. This was made, at the committee's request, by a committee of the Canada-Newfoundland Education Association, appointed to explore the whole situation which Canadian education would face during the reconstruction period.

I think, Mr. Chairman, I should stop at this point, in case there are any questions regarding documentation or organization, because from now on I should like to go into a more general discussion.

The CHAIRMAN: If honourable members have any questions arising out of the statement that Dr. James has made so far, in regard to the work of the Reconstruction Committee and its affiliated subcommittees, you may make them now. I think it is better to do this and clear the ground as we go along, rather than leave such questions until later, when they might cause some confusion of ideas.

Hon. Mr. HORNER: Is any committee at present working on any matter connected with the health of the people?

Dr. JAMES: Not a subcommittee of the Committee on Reconstruction. In the Department of Pensions and National Health there is a committee which was formed before my Committee came into existence; it is working closely with the Soldiers' Rehabilitation Committee, and, of course, produced the Bill that is now before the Commons committee for consideration.

Hon. Mr. HORNER: The health of the people is a most important and urgent matter.

Hon. Mr. BALLANTYNE: Mr. Chairman, I know this committee is deeply indebted to Dr. James for coming here this morning and presenting in such a comprehensive manner the details of the work that has been done by him and those associated with him over a period of nearly two years. The various reports he has mentioned will be of untold benefit to the Government after the war, when legislation is being prepared to deal with the important subjects that they cover.

There is a question that I should like to put to Dr. James. When the war ends the project which, among all the ones he has outlined, will provide the greatest amount of employment, will be the housing scheme. We all know that England is planning to build four million houses. That undertaking will provide employment not only on the actual construction of the houses, but on the manufacturing of the necessary supplies. The problem that will have to be faced by the Government and Parliament of Canada is that with demobilized soldiers and workers laid off by munition plants we shall have a million men and women seeking employment. The question I want to ask is this. Supposing the war were to cease at the end of this year, or next year—I am not suggesting it will—will the housing programme be complete? That is, will plans for the different types of houses be ready, and arrangements made with the provinces and cities and all prepared to be put into effect at once?

Dr. JAMES: I was going to deal with that very point later, sir, but in direct answer to your question I may say that present plans are that the detailed programme for housing will be ready before the end of the present calendar year.

Hon. Mr. BALLANTYNE: And will arrangements be made with the provincial governments and the cities by that time?

Dr. JAMES: The actual plans are expected to be ready in August. Some preliminary discussions are going on with the larger cities, and are expected to go on with the provinces, so it is my hope that by the end of the calendar year we shall have the programme ready.

The CHAIRMAN: That, I assume, would include a definite reference to the areas that would be affected?

Dr. JAMES: Yes, Mr. Chairman.

Hon. Mrs. FALLIS: Dr. James, you spoke of the large number of people who have moved from some parts of the country to other parts in order to participate in war industry. I suppose you had particularly in mind the great move-

ment that there has been from the western provinces to the east. If I understood your statement correctly, it was that the committee is considering what peacetime industries can be developed in those areas to which people have moved, the idea being to provide a continuation of employment there after the war ends. I am just wondering if it will be desirable to keep all those people in congested areas, or whether it would not be better to have some plan for moving people back to the parts of the country from which they came and taking care of them there.

Dr. JAMES: I am afraid I was not clear. It was my fault, Senator Fallis. The committee is studying the extent to which industries can be kept going in what are really country areas. By that I mean areas where there was no manufacturing before the war. It is not suggested that we should try to keep in Montreal or Three Rivers, for instance—the two centres with which I am most familiar—all the people that have come there from the country. But it might be highly desirable in some of the districts between Arvida and Shipshaw, let us say, which at present is practically wild country with no industry except lumbering, to see whether the development of electric power would permit the establishment of long-term peacetime industries. The problem that you mention is definitely before the committee. Nothing would be worse after the war than terrific congestion in industrial areas.

Hon. A. L. BEAUBIEN: Has the committee made any studies as to spreading these industries more evenly throughout Canada after the war, instead of centralizing them in the two Central Provinces of Quebec and Ontario? In Manitoba to-day, even under war conditions, we have a lot of unemployed, and we have only one or two industries in the province.

Dr. JAMES: I was deliberately leaving that question out of this early discussion, but I can answer it briefly if you wish. As Senator Fallis has suggested, a wider decentralization of our industries is entirely desirable, and there is no doubt that that will have to be done. At present we are simply exploring. Where possible we have gone into the development of new industries and the possibility of their continuing after the war. On the basis of that information it will be possible to make recommendations, but we have not yet reached that stage.

Hon. A. L. BEAUBIEN: I am afraid that after the war industries now centralized in the two Central Provinces will remain there.

Dr. JAMES: There will probably always be certain areas of industrialization. You will find that is true of any country. But in England after the last war the biggest industrial development took place outside the old industrial areas.

Hon. A. L. BEAUBIEN: I am of opinion that after the war there may be a great influx of people into the Western Provinces, people who want to get away from the theatres of war, and if you have no industries to balance agriculture you will have tremendous difficulties.

Dr. JAMES: That is covered in the splendid report on rural electrification in the province of Manitoba. It is one of the best documents of the kind I have seen.

Hon. A. L. BEAUBIEN: Yes.

Dr. JAMES: In that report it is suggested that electric power should be developed for industry as well as for farm use.

Hon. A. L. BEAUBIEN: We shall have to convince the industrialists of the advantages of Manitoba for the location of factories.

Dr. JAMES: Industrialists are not hard to convince in regard to things that are profitable.

Hon. Mr. HAIG: I hope, Dr. James, I have not misinterpreted you, but apparently you have been emphasizing two fields. You have been dealing largely with the great body of people who are working in war industries. I heard very little about how the soldiers are to be dealt with when they come back.

The CHAIRMAN: We had two days of that.

Hon. Mr. HAIG: I do not want to put you in a wrong light, but it seems to me at least 95 per cent of your effort should be directed towards rehabilitation of the men in the Army and Navy and Air Forces, and, if I may use a rough expression, damn little effort should be directed to the fellows working in war industries. In my own province there are hundreds employed in war industries who should be in the Army, but they have been given exemption. They are making anywhere from \$7 to \$10 to \$12 a day. Has your committee drawn any line of demarcation between those two classes? Here is a young man off the farm who goes into the Army and gets \$1.50 a day; and here is another man who goes into industry and earns anywhere from \$7 to \$12 a day. The one risks his life for nothing; the other takes no risk and earns very high wages.

Dr. JAMES: I did not say anything about it because I knew you had already had General McDonald before this committee. The pattern which separates the work of the committees is this. The Committee on Rehabilitation and Demobilization has already prepared and had embodied in a series of Orders-in-Council a program which provides for the demobilization of the men, for their rehabilitation, for their retraining, for their interrupted education, for a series of benefits while they are unemployed, for their absorption into the unemployment insurance scheme, which, I may say, is now being copied in Great Britain and the United States. Those countries are considerably behind Canada in this regard. That committee takes your discharged service man all the way down to the end of the process where they say, "This man is now ready for a job." The work has been so well done that we have not given any attention to that part of the problem at all. But at that point where the Rehabilitation Committee has finished it is a direct responsibility, and is so recognized, of the Committee on Reconstruction to see that there are jobs for those men to go into.

Hon. Mr. HAIG: Let me put another question. Suppose I am an employer of labour and need a man. A returned soldier applies, who has been gassed and put through a terrific strain at the front. At the same time a young man of similar age, who has worked in a munition plant and has been under no such strain as the returned soldier, also applies for the position. Whom am I going to employ?

Dr. JAMES: Being what you are, I think you would employ the ex-service man.

Hon. Mr. HAIG: No. Remember, I have to compete with the other fellow.

Dr. JAMES: Obviously I cannot answer the question for you. It is not quite that simple.

Hon. Mr. HAIG: Would an industrialist employ the ex-service man?

Dr. JAMES: Some do.

Hon. Mr. HAIG: Damn few.

Dr. JAMES: No, sir, I disagree with you. I know many industrialists, large employers, who take on ex-service men because of exactly the same feeling as you have. But I think that is not a fair statement of the question. The question of the re-employment of ex-service men by their old employers is already a matter of legislation.

Hon. Mr. HAIG: I know that.

Dr. JAMES: There is also being discussed at the present time by the Committee on Rehabilitation the desirability of further legislation giving priority to ex-service men in employment, comparable to that carried out in Great Britain after the last war. I am entirely sympathetic, but I did not mention the matter because it has not to do with me; everything with regard to demobilization is in the hands of the appropriate committees. All I am concerned with is that there shall be jobs for those men to go into when everything has been taken care of for demobilization.

Hon. Mr. BALLANTYNE: Will there be jobs for them?

Dr. JAMES: May I leave that question for the present.

Hon. Mr. BALLANTYNE: Very well.

Hon. Mr. HAIG: You have not yet answered my question. Has the committee done what has already been done in regard to the Civil Service? We passed legislation giving preference to returned soldiers in respect to positions in the Civil Service. What is being done along the same lines in industry? I think you will have to do it. The gentleman's answer may be clever, but it is not according to the fact; that is the only trouble. Industry did not do that. It employed the most efficient man physically and mentally. If an industry did not do so it could not survive.

The CHAIRMAN: I think the answer, Senator Haig, is that it is by no means the responsibility of the Reconstruction Committee to lay down that principle. That is a question which must be decided by the Government in whatever legislation it brings down.

Hon. Mr. DU TREMBLAY: The only thing the Government can say is that on Government work returned men should be given the preference.

The CHAIRMAN: In connection with Government work.

Hon. Mr. DU TREMBLAY: Yes.

Hon. Mr. HAIG: That is why I want this committee to say something on that.

Hon. Mr. KING: I think, Senator Haig, it would be too bad if this committee should take the view that this subject is to be treated in any narrow way. Successful re-establishment of returned soldiers will depend largely on the general policy for carrying on re-establishment of our people generally. The two must go hand in hand, and that, I hope, will be the consideration which the Government will give to the whole problem. It is the object of these committees to try and bring about a condition whereby the Government can formulate policies to ensure that returned men are given an opportunity for their re-establishment; and similarly with men and women engaged in munition plants, for their work is also essential to the success of our war effort. We cannot carry on the war without munitions and motorized equipment. That is the problem the Government had to face. Reconstruction or re-establishment must go hand in hand with a general policy to bring about the best conditions we possibly can in this country.

Hon. Mr. HAIG: I am not criticizing, I am just asking a question.

Hon. Mr. FARRIS: Senator Haig has not had the advantage of the witnesses we have heard already on soldier settlement, General McDonald and Mr. Murchison.

Hon. Mr. HAIG: I heard Mr. Murchison.

Hon. Mr. FARRIS: But not General McDonald.

Hon. Mr. KING: I think we should let Dr. James proceed.

The CHAIRMAN: Yes. I think many of the questions will bear on what Dr. James will have to say in the next section of his address.

Hon. Mr. HAIG: I would not have interrupted, but, Mr. Chairman, you invited us to ask questions. I do not know the gentleman at all, but I do not like an answer which indicates a clever reply. It may be fine in parliamentary debate, but I do not think it is much good in a committee where we are trying to deal seriously with grave post-war problems.

The CHAIRMAN: I think we are dealing with them seriously.

Hon. A. L. BEAUBIEN: You cannot stop us from smiling once in a while.

Hon. Mr. SINCLAIR: Mr. Chairman, I should like to ask a question in regard to a matter which was dealt with by General McDonald and later by Mr.

Murchison, director of the Soldier Settlement Act. It has to do with the settlement of returned men on the land and providing them with suitable employment in their spare time at some place adjacent to their holdings. The gentlemen referred to it as a matter that came under the Reconstruction Committee. I want to ask Dr. James whether the committee under Dr. Wallace when it holds a conference with the Maritime Provinces in the near future will consider conservation of water and other projects that would give employment to returned men during the early stages of the post-war period, so as to make it easier for those who settle on the land to get a start?

DR. JAMES: That matter has come up in the western trips, Senator Sinclair, and will certainly be considered in the case of the Maritime Provinces. There are no formal recommendations yet, but it bears also on the best interests of industry.

HON. MR. SINCLAIR: It comes before the committee that Dr. Wallace referred to?

DR. JAMES: Partly, and directly under the subcommittee on agriculture. The two are working together in that regard.

THE CHAIRMAN: Will you proceed, Doctor.

DR. JAMES: The second part of this testimony, Mr. Chairman, I have tried to work out in the fashion of suggesting to you what represents the best judgment of the Committee on Reconstruction itself as to the whole pattern of the post-war period. I am necessarily jumping a little ahead of the data in our possession. Some of these arrangements I shall have to state frankly as problems, and in all of them I shall have to tell you in the beginning that we have not been able to present precise measurements. I think it might be more useful to this committee if I should give you the benefit of the picture shaping up as the pattern of policy. Looking at the post-war situation whenever it comes from the four major elements in the Canadian scene, it has to be taken into account. In the first place, there has occurred already a tremendous expansion in the productive capacity of Canada. I am not only referring to the splendid work being done on farms to meet the increasing need for food stuffs, but to the industrial development which has occurred in the last three years, which would have been regarded as fantastic by any reasonably intelligent man in 1937 and 1938, and which is comparable, I think, to no previous experience in history, except, perhaps, the industrial development of Great Britain during the Napoleonic wars or of the Northern States during the Civil war. Some of that industrial expansion will be useless. Shell-filling plants and some explosive plants can by no stretch of the imagination be regarded as useful for any peace-time industry. Some factories have been established in out-of-the-way places where development will not occur. But even after you have written off all the scrapping that has to be done, there is yet a tremendous expansion in basic industrial production. I need only mention aluminium, Canada's production of which, I understand, next year will be as large or larger than the total world production five years ago. The development of the chemical industry has passed all bounds, and there are various other industries; for instance, the use of agricultural and synthetic fibres, which make the pattern for post-war development in Canadian industry much more complex and larger in scale than anything conceived of before 1939.

Moreover, the expansion of plant has been accompanied by the discovery of entirely new products—synthetic rubber, large numbers of plastics and various other products which at the end of the war will have a tremendous number of peace-time uses; and perhaps even more important is the discovery of new technological processes and new and quicker ways of producing things we need. So the potential productivity at the end of the war will be one and a half times or twice as large as it was before the war began, and we shall be able to produce a tremendous number of things which it was absolutely impossible for us to obtain before, or which had to be obtained only by international trade. That

industrial potentiality of plants, processes and products is the first of the major elements to be considered in the post-war period.

The second is that we shall have a tremendously increased supply of skilled labour for industrial and agricultural activity. The industrially employed population of the Dominion of Canada is higher than ever before, and the proportion of the non-military population employed is greater in Canada than in any other country as to which we have exact information, except Great Britain. It may be higher in Germany, but we cannot measure that.

Many of the 900,000 people in war industry have received technical training of a kind, that is to say, they have received training which will greatly increase their productive capacity and earning power. The same is true of the 600,000 in the armed forces. Take a boy who has become an electrician in the Air Force, and who is able to install and maintain the wiring system of a modern bomber. He may not be technically a member of the trade union by apprenticeship, but he will have the skills needed in an area where we will be short of labour. Similarly, in the artillery, the armoured corps, the navy and the radio-finding sections of the air force, the men have received technical training which vastly improves their utility to themselves and to the community. I have watched the training of many of these people who came from farms, and have seen them going out in nine months knowing practical things better than the average university graduate at the end of four years. So our industrial potential is going to be tremendously larger than it now is. Moreover, I think—although this is my personal opinion, with which you may disagree—that during this war we have gone a long way to break down the ancient feeling that white-collar jobs are somewhat superior to technical jobs in the plant or on the farm. That is definitely the case in Great Britain, where a technical man has a feeling of prestige and superiority, and I think it is coming in Canada, where fewer people will want to get into white-collar jobs. I think, too, that our total available industrial and agricultural population is apt to include a larger number of women than before the war. Undoubtedly a good many of the women employed during the war will be apt to marry when peace returns, but judging from experience in this country and in Great Britain after the last war, the number of women in gainful positions will be larger than before. So without question we shall have a larger and abler industrial population waiting for employment.

These two things, the increased facilities, processes and products, plus the increase in the available supply of technically trained personnel, mean a tremendous potential capacity, if we use them.

There are two elements on the other side of the picture which indicate something of that use. First, there will be a large accumulated back-log of demand for goods. That is true of both producer goods and consumer goods. Industries, even those engaged in direct war production, have not by and large been able to take care of depreciation and obsolescence during the present war. They are using their machines incredibly long hours; they have been unable to give them periods of rest or to renew them. They have been unable to rebuild factories for anything except the hard practical reason that a new extension is necessary, and in the case of industries not directly related to the war activities we have had almost a complete shut-down, with the using of stock piles, and in some cases the partial stripping of the plants. Therefore there is going to be a tremendous need for machines, machine tools, and perhaps for actual plant capacity, on the part of a large number of industrial enterprises which have not been able to expand during the war, plus new facilities for peace time usage.

In the case of consumer goods the matter is equally apparent. Housing has been mentioned and emphasized. The deficiency is greater than at any time in the history of Canada. I am told that in Montreal alone we are 30,000 houses short at the present time of the number required, and if you take the whole

Dominion the number will run into hundreds of thousands. We have not been able to buy automobiles or aeroplanes, which we are told will be on the market after the war, nor radios, washing machines, toasters, electric irons—all of the variety of goods we relied on before the war began; even in the case of clothing most of us have cut down substantially on our demands, and at the end of the war, quite apart from the new inventions, such as television, for instance, people will have a tremendous desire to stock up on things that they have been doing without, and business enterprises will want to do their utmost to obtain the means of producing new goods.

Under that heading of back-log demand I would add the even more urgent needs of the distressed areas of Europe, and perhaps also of China, where devastation and starvation have been so great that hundreds of millions of people—actually 396,000,000 in Europe, and between 300,000,000 and 400,000,000 in China—will stand in need of the basic foodstuffs of life, as well as of clothing and other fundamentals. I have seen some figures, carefully compiled, which suggest that in the first two years after the war the feeding of Europe alone, no allowance being made for China, would require between eight billion and twelve billion dollars worth of foodstuffs at wholesale prices. It is literally impossible for the United States, which has played the lead in some respects, to supply that, even if they wished to. There is not an adequate supply of food available in the United States to supply more than half, at the most, of that demand after their own people are fed. Canada, therefore, the second country in the line of source of supply, is going to be called upon for a terrific contribution; for one of the essential things to be done by us after this war, if we mean what we say about our war aims, will be to give away foodstuffs, taking payment in terms of goodwill. That is not unimportant to a country like this, which has to depend on its international trade; because if we are wise and send out goods financed by loans to the countries in question, as they become rehabilitated we shall be able to work back to the basic pattern of international trade. I merely mention this because it is going to be one of the tremendous jobs which will, I think, if we adopt constructive policies, provide for the first two post-war years a demand for things like wheat, which has been extraordinarily difficult to get rid of.

And then, last, among those four elements there will be, I think, a considerable accumulation of funds available—I am talking now of the Dominion of Canada—for the purchase of those goods which people want and which our production facilities are able to produce. In the case of business enterprises, the accumulated funds will likely be less than at the end of the last war, because taxation policies that have been followed during this war, plus the pricing and contracting policies of the Department of Munitions and Supply, have deliberately and rigidly attempted to prevent the growth of any excess profits in the hands of corporations during the war. But we have to remember that most Canadian corporations are a good deal stronger financially to-day than they were in 1938. They have been able to improve their position, and many of them have reserves for post-war reconstruction, and those who need to raise capital funds on the market to supplement their reserves will be in a much stronger position to do so. Moreover, after this war we shall not be as seriously troubled with over-expansion of business enterprises as we were after the last war. One of the biggest problems after 1918 was the fact that many concerns here, in the United States and Great Britain possessed tremendous plants, which they had built during the war to meet an urgent need, but which in the long run bankrupted them because they could not use them profitably. Most of our war plants have been built and are owned by the Dominion Government, or they have been built by private enterprise under an arrangement which allows a substantial depreciation on property in connection with payment of taxes. So if the war goes on another couple of years,

as Mr. Churchill suggested it might, that bane of heavy excess capacity resting on the shoulders of industrial corporations and weakening them, is apt to be almost entirely removed.

In the case of the consumer, the pattern is a little less easy to define. During the last two years there has been an expansion in consumer buying of almost unprecedented degree. Total consumer purchasing in dollar value to-day is 50 per cent above what it was before the war. The rise has been almost directly proportionate to the increase in total output of goods as a result of wartime expansion. I think, however, that most of that expansion in buying has been on the part of lower income groups, the people who during the years of the depression had a fairly difficult time of it because of low wages at the time, or unemployment. Among the groups that were employed before the war—the higher group of skilled employees and the very broad group of the middle classes—I think there has been a substantial contraction in purchasing, partly as a result of voluntary investment in war loans and war savings certificates, partly because of higher taxation (some of which is returnable under Mr. Ilsley's scheme) and partly as a result of the fact that goods have just not been obtainable in a good many of the fields in which consumer buying might have occurred.

If, therefore, we maintain our price ceiling policies so that the available consumer power is not all absorbed in the purchase of existing goods at greatly increased prices (which is pretty much what happened in the last war) I think there will be a substantial accumulation of savings in the form both of bank deposits and of government securities and compulsory savings certificates of one kind and another, in the hands of potential consumers.

In the case of returned men, the proposals do not envisage the payment of any substantial bonus in cash at the moment of discharge, although I notice that that question is now being discussed in the United States, even at this early stage of the game. They do, however, envisage substantial payments over a period of time to all the individuals in question. If they should be unemployed or not wish to seek employment they can receive allowances, as General McDonald undoubtedly told you, up to twelve months; and in certain cases where men are eligible for retraining or for interrupted education benefit, these benefits may extend for one, two, three or as long as four years, when a man is going up to a university to get a degree. On the whole, therefore, looking not at the cash in his hand at the moment that he comes out of the army, but at the continuing benefits and at the increased opportunities for employment, which I am going on to discuss, I think that the returned soldier will be able, during the two or three post-war years, the immediately post-war period, to spend a good deal more than was the soldier who was demobilized after 1918.

Let me repeat that these four elements which I have mentioned still have to be measured. We are endeavouring to obtain precise details; the Committee has been checking carefully with the group of experts in Washington and Great Britain, in order that the figures may be not only accurate but comparable; and I hope in due course to be able to present to you, Mr. Chairman, a fairly specific statement showing the exact magnitude of the probable purchasing power and of the probable degree of investment which corporations will be able to make, since that is the key part of that pattern.

Now, against those four elements, what is the pattern of the immediate post-war period? It seems to me that in all our reconstruction thinking we have to consider as quite distinct and separate, the immediate post-war period, which will be just as difficult a problem to solve as the immediate problem of demobilization. We have to demobilize an army, in whole or in part, we have to demobilize war industries, and we have to provide for a decently functioning international economy, whatever may happen in the field of international politics. We have to provide for some degree of resuscitation for western Europe and, to a certain extent, for China. We have, in other words, to take a war-torn world, disorgan-

ized by war as it will be on that day of victory, and try to fit the pieces together in some new pattern which will make a satisfactory society conforming to the various ideals that have been suggested by us.

Hon. Mr. BALLANTYNE: I am sorry to interrupt, but would you allow me a question? I did not clearly understand what you said about demobilized soldiers. I understood you to say they were to be taken care of financially for one, two, three or four years, provided they have not found employment in that time. How is that to be done, by the Dominion Government?

Dr. JAMES: By the Dominion Government, under P.C. 7633. The four years are only the interrupted education benefit period.

Hon. Mr. BALLANTYNE: I am not familiar with that P.C.

Dr. JAMES: The four years apply to the interrupted education benefit. The provision in that particular section of the Order is that any man or woman demobilized from the armed services, who is qualified to enter a university and is admitted to one, is eligible for an allowance for one, two, three or as long as four years.

Hon. Mr. BALLANTYNE: I was not referring to universities alone. I had in mind the general situation.

Dr. JAMES: Generally, the maximum period is twelve or fifteen months. But for those entitled to retraining or vocational training, it is twelve months after the end of their training.

Hon. Mr. BALLANTYNE: For a period of twelve or fifteen months a man will get how much?

Dr. JAMES: Under P.C. 7633, he will get \$9 a week, if single, or \$13, if married. Discussions are now going forward in regard to supplementary allowances.

Hon. Mr. BALLANTYNE: They are going to be taken care of for twelve or fifteen months, in any event?

Dr. JAMES: Every individual will be taken care of for twelve months after demobilization, and that period may extend, as I say, to four years.

Hon. Mr. BALLANTYNE: I am sorry to have interrupted you, but I was not clear about what you said.

Dr. JAMES: May I add one word? The four-year proposal is by no means an unimportant thing, because something like 58,000 members of the armed services have indicated their desire to participate in the interrupted education benefits.

Hon. Mr. BALLANTYNE: Will their tuition or fees be paid partly by the Federal Government?

Dr. JAMES: The tuition, the whole fees, will be paid entirely by the Dominion Government. And also throughout the whole period, which may run up to four years, the Dominion Government will pay the student \$9 or \$13 a week, subject to any variation in those rates that may be made by Parliament.

Hon. Mr. HAIG: Is that 58,000 out of 375,000?

Dr. JAMES: It is 58,000 out of the total active forces.

Hon. Mr. HAIG: Is it that number of men out of the overseas forces?

Dr. JAMES: It is that number out of the men who are overseas or who have volunteered for active service.

Hon. Mr. HAIG: You do not know out of what total these 58,000 men come?

Dr. JAMES: It is in my mind that the proportion is one in six or seven. That would indicate that perhaps these 58,000 are out of 375,000.

I was saying that the immediate post-war problem is rehabilitation. Then of course there is the long range problem of working towards whatever reconstruction ideals we may have for the distant future. But I should like now

to concentrate on that immediate post-war period of two or three years after the conclusion of the war, recognizing that if, as many people have suggested, the war against Germany ends first and then we have to carry on the war against Japan for another one or two years, the period of transition will be made longer, but also easier for us, because we shall then be able to carry out a partial demobilization of men and industries while we are still fighting Japan. I think that the ideals for that period can be summarized in a fairly succinct statement. In the first place, we must provide jobs as quickly as possible for all Canadians who are willing and able to work, including the 600,000 men and women now in the armed services and the 900,000 who are now employed in war industry, which may not continue after the war is over. That is our first and major problem. The second is to produce as rapidly as possible the commodities of all kinds that are needed by consumers, by industry and for international rehabilitation, as I suggested.

Theoretically, of course, according to text-books on classical economics, those two problems are supplementary. In a perfect world, private business enterprise, seeing a potential market for goods, would assemble material and labour in factories, and by producing goods would provide total employment. I am deliberately not mentioning agriculture there, because agriculture probably will not be able to expand still further in the immediate post-war period. Agriculture during the war has been expanding to what looks like our maximum capacity at the present time. It will be faced with the problem of continuing, perhaps with a little more labour than it can now get, rather than with the problem of expanding.

In actual practice the Government will be called upon, even in the happiest situation, to adopt certain constructive policies to aid private enterprise in doing its share of the work. It seems probable that the immediate post-war tendency will be one of business expansion and boom, with serious danger of rising commodity prices. Inflation is a much more dangerous thing in those two post-war years than it is at the present time—and Mr. Donald Gordon has shown us its seriousness to-day.

Some Hon. SENATORS: Hear, hear.

Dr. JAMES: I am sure you would want me to suggest what seems to me the practical problems in actual practice. Even if that boom develops and business enterprise is able to take hold of the pattern, the Government will need first to carry out an orderly scheme of demobilization. By orderly I mean not only spreading it over a period of time, as is now proposed, but providing very clearly and promptly for the demobilization of certain types of men in scarce demand. One I am pretty familiar with in my capacity of principal of McGill University, is the urgent need of prompt demobilization of all school teachers and university professors to take care of the education of returned men. There will be certain other groups, such as scientists, technicians and others employed in war industries, who will need to be released immediately because their peacetime activities tend to provide employment for very large numbers of people. I need not elaborate on that. General McDonald I know has told you about most of these problems.

Secondly, we may need to maintain in those three or four years, in full or in part, a great many of the priorities and commodity controls that exist during the war. The problem there is very complex, and I cannot pretend to give even a final guess. Supplies of most raw materials have increased tremendously since this war began, and it may be that (except perhaps for things like tea, coffee, sugar, rubber, and a few very rare minerals, like molybdenum and tungsten) we shall have more than enough for our own use and to send overseas. But I think that in the initial stages, unless there is a maintenance of controls for effective distribution, we may have to meet problems of distribution and transportation arising out of the scramble of business enterprises to secure

goods for themselves for fear they will not be able to get them later. That, as I have said, calls for very careful investigation.

Thirdly, and much more probably, we shall need to maintain in some degree at least for twelve months the price control and consumer rationing which we have placed in effect during the war. The real things that are going to be scarce, as I have suggested, are likely to be certain kinds of foodstuffs, because we cannot refuse to send to Europe enough to keep the people there alive. To contradict certain rumours that I have noticed in the papers about the development of plans which are going to enable Europeans to live more happily than North Americans after the war, may I say that the whole scheme is based on supplying Europe with enough food to give Europeans 80 per cent. of war-time rationing. That is not much more than one-half of the foodstuffs which the average Canadian is eating at present, and certainly it cannot be regarded as any rash spasm of generosity to suggest we ought to provide that much. Because of that I think food is apt to be scarce, and I think also the impact of money inflation is apt to be great in that field. Therefore, to provide effective distribution and to prevent runaway price increases, I think the maintenance of control for that first twelve months until some European land can be put into cultivation will probably be needed in regard to consumer goods.

Fourthly, in the circumstances I have described, there will be a rapid reduction of Government expenditure—

Some Hon. SENATORS: Hear, hear.

Dr. JAMES: —as rapidly as possible, because the inflationary tendency of itself will only be accentuated if the Government continue to spend on a fabulous scale.

But, fifthly, it is probable that we shall need to maintain fairly high taxation in spite of the reduction of Government expenditure, partly to finance the return of compulsory saving certificates which become due and payable in that period, and partly to enable the Government to strengthen its financial position a little against the possibility of any subsequent depression that may develop.

I think on social security measures of any kind would be seriously needed during that two-year period. If a boom develops for that short period it will be taken care of by P.C. 7633, which we have been discussing. The existing unemployment insurance scheme covers, so far as I am able to see, all workers in war industries, since most of them—except the very young ones who have just started in because they were under age for military service—will have accumulated six months or more benefits at the maximum rates of \$12 or \$14 a week. So the existing scheme which was put into P.C. 7633 should, if a boom develops—as I anticipate it will—provide an adequate measure of care for those temporarily out of work during that immediate period of two years.

Hon. Mr. BUCHANAN: Are the Canadian Manufacturers Association, the Canadian Chamber of Commerce and others co-operating with your organization by forming their own committees on reconstruction?

Dr. JAMES: The answer is Yes. Committees have been appointed by the Canadian Manufacturers Association, the Canadian Chamber of Commerce, the Pulp and Paper industry, the Life Insurance companies, the heavy Iron and Steel industries, the Cotton Textile Institute, and others. I could go on down the list. All of them have been continuously in the closest touch with my own committee. In fact they have asked us to suggest to them the kind of things that they need to discover from their own members, their plans for fitting into the scheme.

Hon. Mr. BUCHANAN: They are confining their studies to their own industries?

Dr. JAMES: Yes. This committee I am talking of is intended as an overall committee to build up a comprehensive picture.

Now, lest you accuse me of undue optimism, let me suggest that even in this post-war period a depression may develop, and no reconstruction policy would be worthy of the name unless it had in reserve a scheme or series of schemes which it could put into effect if something went wrong. What does that involve? A depression of course means, in summary, that private business enterprise has not been able for any number of reasons (we need not go into that, for they might be valid) to face this challenge of providing sufficient employment for the purpose of producing goods that Canadians desire and giving them a reasonable standard of living in the meanwhile. If that happens Governments must be prepared to assume much more considerable responsibilities. In that case it would not be possible to envisage a decline of Government expenditure. It would be necessary for the Dominion and provincial Governments, working on the basis of carefully prepared plans that had previously been approved, to invest in a variety of construction projects that would provide the necessary employment during this period of slump and help to restore reasonable prosperity. One field is that of housing, which has already been mentioned this morning. Various other construction and conservation projects are already under consideration. Even if we never had to use these projects—and I trust we may not have to use many of them—planning for them is simply an insurance against acute depression. We should be ready with these plans so that we are not at the last moment forced to resort to work projects, which disgust the man who has a job on them as much as the man who is paying taxes for them. We must work out plans for these projects and have some comprehensive policy regarding them. In that case, too, a very much more comprehensive scheme of social security would be essential. We would be faced with wide unemployment and considerable distress in a good many areas of population, so it would be necessary to increase substantially the existing benefits of our present unemployment insurance scheme to provide a measure of supplementary unemployment assistance, and it would be highly desirable to provide more adequate pensions at a lower rate for the purpose of removing from the labour market to more or less permanent retirement some of the people who would be in the vast body of unemployed. I do not expect that that sort of thing is going to develop, but simply as a preparation against something going wrong in the other plans those two plans of Government investment and social security need to be carefully considered by Parliament and by the Government, and certain definite schemes and procedures worked out, in order that we do not at that time make things worse by having to indulge in extended discussion. It is for that purpose, as I have already suggested, that elaborate reports on both of these things have been prepared, in a preliminary sense, by the Committee; and considerable further work is going on at the present time.

I do not know whether you want me to stop at that point, Mr. Chairman.

Hon. Mr. HORNER: I should like to ask a question, but first I will explain my reason for asking it. You said that it might be necessary for the Government to assist increased employment. Have your committee considered or done anything in regard to the whole question of parity of earning power? Mr. Peterson, of the Farm and Ranch Review, has prepared a very careful statement on the earning capacity of those working on farms and of those in preferred employment, such as railroad workers. In other words, there is the possibility that Canada is facing a labour dictatorship. Probably you have read an article in the Readers Digest on what labour is doing in the United States in regard to the war effort, some men refusing to work longer than two or three hours a day. If labour is going to get a stranglehold on our economic life, the great mass of the people would be earning less and at the same time paying taxes to provide work for others at greater rates of pay.

Dr. JAMES: That is another consideration, sir, but I should like to be permitted to leave the discussion of it until I come to the next session.

Hon. Mr. BUCHANAN: You were speaking about a possible period of depression, and utilizing the housing development. You would not defer that housing development to that period?

Dr. JAMES: Oh, no. It would simply be an extension of the programme in a given year. You mean that if you were going to build X houses, and a depression developed, you would have to build X plus Y, and bring in a lot of additional people?

Hon. Mr. BUCHANAN: And you would expect government assistance.

Dr. JAMES: Oh, definitely.

Hon. A. L. BEAUBIEN: In presenting your brief you mentioned that our industrial capacity was higher, perhaps, than it ever was, and probably as high as that of any country in the world.

Dr. JAMES: No, not higher than that of any country in the world. It has expanded more rapidly.

Hon. Mr. BEAUBIEN: It is as high for the population.

Dr. JAMES: That is true.

Hon. Mr. BEAUBIEN: We are going to be able to produce a tremendous amount of goods, many of which we never produced before. We cannot consume all these goods, and many of them will have to be exported, and food stuffs given to devastated countries in Europe. But we will have to get a certain amount of pay for some of those goods, and the only way in which the people who get them can pay for them is by giving us some of their goods. There must be international trade to a much larger extent than to-day in consumer goods.

Dr. JAMES: Definitely. I am coming down to that.

Hon. B. F. SMITH: Speaking of the armed forces, is it the intention to make any distinction between the soldier who has volunteered to go overseas and the one who did not?

Dr. JAMES: The provisions of Order in Council 7633 apply only to volunteers, as I remember. I defer to General McDonald on that, but it is my recollection that the benefits apply only to volunteers for active service.

Hon. Mr. HAIG: I anticipate that more employment can be given by housing than by any other scheme. What are they doing to meet the housing demand of the people in the lower income bracket? That is the problem I cannot solve.

Dr. JAMES: That, Senator Haig, is of course a really serious problem. There is no problem in building the house for the man who wants to spend \$10,000 or more on it. There is not very much of a problem in building a house, even by private enterprise, for people who are able to take a \$4,000 house or better if you give them an arrangement whereby they can get an amortized mortgage. But when you get down to the people who cannot pay anything like what is required for that, it is obvious, as evidenced by the studies made here, in the United States and in Great Britain, that the only way in which you can provide decent housing accommodation is by a form of assistance from state, local and national governments. I am not saying what our own Committee will suggest, but the usual pattern in the United States runs something like this: the municipality acquires the land and makes it available free of charge for a certain number of years, fixing a tax rate on it which is about equivalent to that of good surrounding land, charging no interest on the investment. The Federal Government lends the money for the project, usually at two per cent interest, and, in a few cases, at three per cent, and the project is carried out by a non-profit organization which may be owned by the government or be run by public spirited citizens. It has been discovered in these developments that you can provide accommodation of a thoroughly satisfactory kind at rents which people can pay, and the

rents are adequate to amortize the actual capital cost involved over a period of thirty-five or forty years. Then at the end of the period the whole development usually becomes the property of the municipality under an agreement that it will maintain it in modern form and will rent it at not more than existing rents—in some cases less. That is the sort of pattern the United States has developed.

The British pattern is that the National Government has loaned money to the municipalities, at one and a half or two and a half per cent, to enable them to build municipally-owned houses under an arrangement whereby they do not charge any interest for the land they have contributed.

The Canadian pattern may have the features of both—the contribution of land by the municipality, and of the money by the Government, at low interest rates.

Hon. Mr. HORNER: At one of our committees a university man said that if Canada were pushed out into the middle of the ocean and it was impossible for her to trade with any other nation in the world, there was an ample living in the country for all the population we have at present.

Dr. JAMES: I would suspect that was true. Of course, it would be a somewhat different kind of living, and I would have to think about that before I would say what the facts are. Undoubtedly our natural resources and industrial skill would provide a living.

Hon. Mrs. FALLIS: Dr. James, I wonder if you would clarify a phrase for my benefit? I did not catch the setting. Speaking of employing people after the war, you used the phrase "those who were willing and able." What is the implication of the word "willing"?

Dr. JAMES: There was nothing Machiavellian about it. If one says "full employment," which is the usual phrase, people say that there are lots of people who do not need to work. What I was trying to convey was that everybody who wanted a job ought to get one, and the only unemployed would be those who did not want a job, or those who were unable to work, for technical or physical reasons.

Hon. Mr. ROBINSON: What about those who need jobs and won't take them?

Dr. JAMES: That question plagues everybody. The only practical solution I have heard suggested is that if an able-bodied, technically competent man is offered employment, and he refuses it, his unemployment benefit should stop.

Hon. A. L. BEAUBIEN: What are you going to do with a man who wants to choose his job?

Dr. JAMES: Within limits I would let him. After all, all of us prefer certain occupations, and if it is possible to give a man a job in a sugar factory when he does not want to work in a flour mill, I would try to give him the job he wanted. But if he changed his mind half a dozen times, I would have my doubts.

The CHAIRMAN: Before proceeding further, I should like to ask the committee for its advice about proceeding with the third part of Dr. James' contribution to-day. It is in many ways, I think, the most important part, dealing with trade and monetary facilities for promoting trade. It will take some time. Would the committee prefer to sit now and hear what he has to say in conclusion, or would it like to adjourn and have him come before us again? The nearest day would be Friday.

Hon. Mr. KING: What about this afternoon?

Dr. JAMES: I could do that this afternoon.

Hon. Mr. KING: I think we will be through in the House at 3.30. I do not think we are going to have the Royal Assent to-day. Possibly we could even make it 3 o'clock.

The CHAIRMAN: The sooner we can meet after lunch the better. As the Senate is going to meet at 2.30, possibly we could reassemble at 3 o'clock.

Hon. Mr. HAIG: I would so move..

The CHAIRMAN: We will adjourn until 3 o'clock this afternoon.

The committee adjourned until 3 p.m.

The committee resumed at 3.30 p.m.

The CHAIRMAN: Dr. James has kindly stayed over for the afternoon, and I will ask him now to proceed with the balance of his statement.

Dr. JAMES: Mr. Chairman, ladies and gentlemen, I distinguished this morning between the short-term emergency period of post-war reconstruction and the long-range period that follows it, because the emergency period of course is the period in which we have to meet an immediate task with all sorts of perhaps temporary expedients, whereas the long-range period is one in which we have to maintain continuously policies which are going to achieve the aims we are after. While there can be a good deal of discussion regarding the details of those aims so far as they concern the average Canadian, the Committee on Reconstruction has pretty well reduced them to two or three. The first is the maintenance at all times of full employment. The second is the provision of an adequate measure of social security for the whole population. The third is the operation and conservation of our natural resources in such a way that we can maintain as high a standard of living as possible.

I hope this afternoon to explore a little the policies involved in those three aims, and particularly in the first of them. I do not think there is very much discussion about the general policy and technique of conservation and social insurance. But the first problem, the one Senator Haig emphasized this morning, that we should be able at all times to provide jobs for the people that need them, is of course the central theme in the whole picture, and it is something that we failed miserably to achieve in the ten years after 1918.

The fundamental problem of maintaining full employment is of course the ancient problem of economic theory involved in trying to control the business cycle so as to avoid excessive booms and certainly excessive depressions. During the last twenty years there has been a tremendous amount of time spent on analysing that particular problem. It is interesting to note that one of the jobs which the British War Cabinet first did in 1940 was to appoint a committee of economists for the purpose of writing a new economic text-book. Nothing of course sounds less directly relevant to the war. But the Government was interested in having developed a synthesis of economic ideas which bear on the problem of post-war development. That theory, developed chiefly by Lord Keynes, Dr. Lionel Robbins, Dr. Meade and Professor Henry Clay fits in with the comparable periods which have been developed by the Federal Reserve Board and the National Resources Board in the United States, as well as with the ideas of your committee. I mention that because what I am saying this afternoon is not a personal theory of mine or of any other individual. It is a synthesis of the doctrines and theories which have been developed by economists and administrators during the period of the great depression and the war.

If you will allow me I should like for a minute or two to go into an analysis of some of the fundamental theoretical concepts. The basic problem of correcting booms and depressions is the very simple one of being sure that all of the goods produced are purchased and consumed in the community. Now, there is no real problem in the case of the ordinary consumer. There

were a good many campaigns during the years of the depression which suggested that we ought to encourage people to spend more money and buy more goods for the purpose of engendering prosperity. Frankly, I do not think there is anything to this theory at all. The average consumer, if he is sure of continuous employment, if he has confidence in the future, if he is protected by insurance, public or private, against the hazards of sickness, accident and old age, spends almost all of his income on consumable goods. There may be a fraction that he invests in securities or life insurance policies, or anything else you like. But even that fraction in normal times goes back through the investment mechanism in a way I will mention in a minute. We need not worry about the individual consumer. If he has a regular income, if our policies are sufficiently attractive to convince him there is no immediate danger of mass unemployment, he will purchase all of the goods he can with that portion of his money which he does not need to invest.

The real problem comes in the other group of consumption, the quantity of goods purchased by the Government and by business men in what we might call gross capital formation or gross investment. By that I mean goods that are purchased on Government account for the building of roads, structures and everything else, and by business for the construction of new premises and houses, and for the purchase of new equipment and new tools, and also for the accumulation of inventories. All those are purchases of course which do not directly increase the quantity of commodities in the hands of consumers, and which represent such a very substantial portion of the total available production of goods of all kinds in the State.

That figure of gross capital formation is an extraordinarily variable one. It is the opinion of most economists at the present time that that is one of the primary factors in producing booms and depressions. And we could go a little more deeply than that. On the basis of capital studies that have been made in the United States and in Great Britain and on the preliminary conclusions of studies which are now being made in Canada, it would seem that the maintenance of full employment and reasonable prosperity demands that the community invest approximately 20 per cent of the total national income in capital goods of one kind or another. That figure of 20 per cent is of course an arbitrary figure. That seems to be the closest figure in Great Britain; it is a little higher so far as one can judge in the United States; Canada may be a slight percentage below or above when we get the actual figures. But I will take one-fifth as the hypothetical figure which on the basis of careful analysis seems to be necessary. Whenever the capital formation falls below that 20 per cent, we have in the past always had depression and unemployment; when it rises above that percentage we had rising prices, prosperity and total employment. Therefore, so far as one can judge, the task of maintaining full employment is pretty closely associated with the task of maintaining a gross capital formation in Canada of one-fifth of the national income.

Now, let me say at the very beginning, that is not an impossible task. There have been periods in relation to gross capital formation in Canada that exceeded 20 per cent; there have even been more periods in Great Britain and the United States when it exceeded 20 per cent; and in the period of prosperity before 1929 in the United States it was almost continuously above that for five or six years. All we are concerned with is not simply pushing it above this percentage but in maintaining equilibrium at that point.

Hon. Mr. HUGESSEN: What do you mean by "gross capital formation"?

Dr. JAMES: Gross capital formation is the total money spent by the Government on construction projects and by business enterprise on construction projects and equipment and additional inventories.

Hon. Mr. HUGESSEN: That should be 20 per cent of the national income?

Dr. JAMES: Yes. For the purposes of most of our calculations we have estimated that the average national income of Canada after the war ought to be \$7,500,000,000. That is about 10 per cent less than our present national income, but pretty nearly twice the national income before the war. On that basis as an arbitrary it would mean that \$1,500,000,000 each year would need to be spent on buildings, new equipment, new roads and additional inventory by all the Governments of Canada, plus all the business enterprises.

An Hon. SENATOR: That is everything except consumer goods.

Dr. JAMES: Now, that problem of maintaining gross capital investment of 20 per cent, or \$1,500,000,000, is, I think—and I am speaking here not only in my own behalf but in that of the committee—chiefly the task of private enterprise. There is a strong feeling in the Committee on Reconstruction—with which this committee may agree or disagree—that reconstruction is no period for social or economic revolution, that we have a hard enough task confronting us to achieve the ideal towards which we are aiming, and that we should not complicate that by striving to achieve any different sort of social idealism which may be preached or suggested by various groups.

In so far as private enterprise has in the past succeeded admirably in attaining on a good many occasions a gross capital formation as high as this, and in view of the fact that there is at least general lip service given to the ideal that we should try to maintain opportunities for private enterprise at the end of the war, the initial aim of my own committee is to see how far it is possible to plan that private enterprise for a gross capital formation that approaches \$1,500,000,000 a year, and stays at that figure. As I mentioned this morning, we are in process of setting up a special subcommittee of industrialists, which has undertaken to explore that problem. We are already in discussion with a large number of business committees, and I hope within a matter of months to be able to leave with you and with the Government actual statistical tabulations of the amount of private capital formation which is already envisaged and for which money is ready at the end of the war.

Hon. Mr. BALLANTYNE: "Do I understand you to say that you go to a large corporation and say, "We think your capital is too small or too big, and we want you to modify it." Do you think any private concern would submit to that?"

Dr. JAMES: No. I was not suggesting that at all, sir. We are asking private business enterprises to tell us confidentially—which they are willing to do—the exact amount that they expect to spend in the first three post-war years and thereafter on the building of new plants and equipment and new facilities.

Hon. Mr. BALLANTYNE: Supposing they do that.

Dr. JAMES: Then we are trying to build up figures showing what will be the total investment of all Canadian corporations in new facilities during that period.

Hon. Mr. BALLANTYNE: In new facilities?

Dr. JAMES: In new facilities.

Hon. Mr. HUGESSEN: And the balance to be provided by the Government?

Dr. JAMES: I am coming to that.

Hon. Mr. BALLANTYNE: Do you mean you will tell them what capital they are to invest in those facilities?

Dr. JAMES: No. We are asking them how much they are going to spend. Even if you picture private investments by private corporations to develop all their own facilities, there are certain things the Dominion Government will need to do to facilitate the process. The first thing to be explored is the organization of the capital fund market in this Dominion, the facilities for the sale of securities to raise the necessary capital. That is at present being explored. I have no

conclusions to offer as to whether our present investment banking and other machinery is adequate, but I would point out one difficult problem which has not yet been solved, and that is the extent to which the Canadian capital market should be graded with the American and English capital markets. Historically the Dominion market has been dependent on and closely related to both London and New York. At the end of this war Canada will be a capital exporting rather than a capital importing country.

Hon. Mr. BALLANTYNE: Right.

Dr. JAMES: The United States will be the greatest capital exporting country in the world. We are at present not very clear as to what position Britain is going to take. The British Government feels quite definitely, and with some reason, that they are going to be able to export as much capital after this war is over as they exported before. To improve that situation in the three countries one of the first things that has to be settled, and is now in fact being explored both domestically and internationally, is the question of the effect of our foreign exchange control, and the regulation of the security movement, on post-war raising of capital for direct expansion. I cannot offer any solution. I am simply telling the committee that that is one of the problems which is being analysed. It is fairly clear too that there is another major problem of which I have not the solution, namely, the question of post-war taxation policies. There is a suggestion, which seems to have merit, that current taxation policies in the Dominion of Canada and in other countries tend to discourage the accumulation of reserves in corporations, and to discourage the investment of what used to be called enterprise capital in very risky ventures. The present level of taxes is not the only question involved. There may be necessary certain changes in tax procedure. One that has been suggested, for instance, is placing more burdens on individual income taxes and less on corporation profit taxes, to redistribute the actual burden on a given quantity of taxation. Much more importantly, it will be necessary to study fairly carefully the whole question of depreciation allowances, not for the purpose of determining how slowly a factory depreciates, but using that figure to encourage or discourage the building of factories at certain periods. I believe that Mr. Dunning, when Minister of Finance, made certain suggestions along these lines as a means of removing the depression, and comparable suggestions have been made in the United States. So the whole structure of taxation comes into the picture as one of the things that can encourage or discourage private investment.

Thirdly, or fourthly—I forget which—it is quite apparent, taking the economic position of Canada, that the extent to which business enterprise is willing to risk large quantities of capital will depend very largely on the international situation. We have had certain glimmerings of the trend of ideas in London and in this city during the last six months. There is, as you know, to be a discussion in Washington next month or early in May of the basic international monetary system which is envisaged for the post-war period. I have not seen either the British Government reports or the United States Government reports which are the basic agenda of that conference; but judging from press reports, there is a unanimity between these two governments in desiring stabilization of the sterling-dollar exchange by the establishment of an international clearing system of a kind that will permit a lack of balance in the international situation for short periods, with Great Britain and the United States granting credits which will make it possible for the debtor countries to purchase goods even though they are not able to pay for them. That is a tremendous step forward. If the newspaper accounts of the Keynes and White plans are correct, we shall have a more satisfactory monetary system than we have had at any time since 1941—I would go further, and say since 1914. That is of tremendous benefit to Canada, because a lot of our exports are conditioned in large measure, not so

much by foreign exchange rates, but by the depreciation of the currency of other countries, and by the problems that depreciation creates in international markets.

I said this morning that during the two post-war years we should have to give away a certain amount of goods—the amount to be decided upon by the Government—for the rehabilitation of Europe. I am going to assume that that is being done. But, quite apart from that, it is perfectly clear that the total amount of goods in export after those gifts is normally exactly equal to the amount of goods and services we import plus the quantity of foreign securities we import. Whether or not the British Government is exporting capital after the war, it is fairly certain it will not be exporting to Canada. We are not likely to be financed either by the United States or Great Britain, and the problem of our foreign trade is not the problem of tariff discussions as such. It does not begin at that point. It is not so much a problem of discovering export markets, because at the end of this war there will be a crying demand for the things Canada is able to produce and sell. The real question we are facing is how the rest of the world is going to pay for these things it wants. There are only two ways: by our becoming a great tourist nation, as the United States did after the last war, or by importing French wines or Indian rubber or tobacco or coffee; and that I do not think is going to extend tremendously, though we will want some of these things. I do not think that foreign trade after the war is going to be the traditional question of the nineteenth century. I think the exchange of foreign materials for Canadian goods will go on, but less importantly. With South Africa, Australia, and intensively with Europe, the quality of exchange will probably be the exchange of one kind of manufactured product for another kind of product; and I think—and here I am expressing a purely personal opinion—we have to face the fact that the total volume of international trade in terms of tons of goods is likely to be, after the initial emergency, less than it was before. If Canada wishes to maintain a very heavy export balance, I think we shall have to engage in the import of foreign securities; in the lending of funds to foreign countries on a much greater scale than we ever contemplated before.

I do not want to go into that at length, but I would suggest that in the field of international finance there is a series of problems with which I do not think we have sufficiently concerned ourselves. There is a growing recognition in London and Washington of the fact that peace depends very largely on prosperity, or, to state it the other way around, that nothing more tends to promote war than international depression, and that part of the attainment not only of peace but of the continuing prosperity of any country is dependent on the continuous economic prosperity of other parts of the world.

The Import-Export Bank of the United States is, as you know, giving away substantial quantities of capital goods to South America. They call some of these gifts loans, but as you know, they expect to write them off.

There is also a discussion in London over the development of the Hwang-ho Valley in China. Projects of that kind which raise the standard of living in distant areas of the world are of vital interest to Canada, because the first thing you export is food—basic food, chiefly cereal grains—the one thing which Canada has in large volume and is desperately eager to export.

I think, therefore, in studying the whole international pattern in encouraging private enterprise to extend its investments we need to study our probable imports; secondly, the extent to which Canada is likely to export capital by the importation of foreign securities; and thirdly, the extent to which Canada should be interested in participating in international development.

I recognize that there is still the question of tariffs. I am not avoiding that, but think it is impossible to approach it. You all know that under section 7 of the Lease-Lend consideration agreement, which was negotiated between the United States and Great Britain fifteen months ago, it was pro-

vided that both the high contracting parties looked towards the elimination of barriers of trade, especially discriminatory barriers. I am not revealing anything when I say that there is a substantial feeling in the United States that that should mean the elimination of the Imperial preference, nor when I say there is a growing body which feels, not that we should establish free trade, but that the tariff barriers of the late twenties and thirties are unsatisfactory in many cases. I do not think, however, we can begin this discussion by saying what the Canadian tariff should be on cotton, paper or anything else you mention. I think we have to begin by looking at the whole pattern and the elements of the Canadian International situation, because what we are interested in developing is not a series of bilateral or closed agreements with particular countries. Canada, more than any other country in the world, is interested in the general development of a world trade in which she can participate, and not in a series of individual formulae.

Hon. Mr. BALLANTYNE: Home trade first.

Dr. JAMES: Definitely. This was the last of my list of seven elements. That is a fair responsibility for the Government. That is absolutely the minimum.

In order that private enterprise may be encouraged to maximum investment, it is necessary that the Government should face these problems of markets, foreign exchange control, taxation, and participation in these various schemes of private enterprise. I think, however, that minimum is too low, in view of the magnitude of the necessary capital formation—20 per cent of our national income—and that as Canada has never succeeded in maintaining that figure continuously for a ten-year period, the Dominion Government is called upon to act in a marginal capacity, to stand ready if private investment falls below the necessary minimum level—to stand ready with dollars of public investment of the kind I discussed this morning, to bring it to that figure. If private investment amounts to only one thousand million dollars, then it is necessary that the Government should spend five hundred million dollars on public investment projects. I do not think that will be necessary in the *initial* post-war period. After the first two post-war years are over the initial flush is finished, and then I think it quite probable that we will have to spend two or three hundred million dollars a year on an average for five or six years to take up the slack and maintain full employment. What it shall be spent upon is a matter for the Government to decide, but the true projects are the ones we discussed this morning: housing, conservation of resources, development of water power and rural electrification, and after that a variety of projects such as the development of facilities for international air lines and a system of proper highways. Conceivably, the Government could spend money on the rebuilding of school-houses throughout the country, but there are thousands of other types of buildings that could be included in that picture. The Government must face the fact that if, as and when private enterprise is not equal to the necessary figure, the Government must be ready, without long debates or arguments or other interruptions, to engage in public investment of a kind sufficiently valuable to command public support, and that it must be prepared a long while in advance, so that it is not necessary to waste time then in blue-prints and discussions. That is going to cost money, and it is quite obvious in the circumstances that public investment would have to be financed by borrowing and not by taxation. We are talking about a period in which unemployment is developing, prices are falling, and in which there is incipient depression because of the inadequacy of private investment. Therefore it must be a Government investment.

Hon. Mr. BALLANTYNE: Provided they have public opinion behind them in parliament and outside.

Dr. JAMES: That would have to be developed in advance. This is a policy which would be approved so that it could be put into effect when the situation developed without one day's discussion in parliament.

Hon. Mr. BALLANTYNE: If you will allow me to say so, speaking more as a business man now, the first problem confronting any government will be that of easing the present strangle-hold of taxation and giving Canadian industrialists a chance and an incentive to expand home trade.

Dr. JAMES: I have already discussed that, sir.

Hon. Mr. BALLANTYNE: Are you in favour of taxation being lowered? You say that international trade should be developed, and that billions ought to be spent on it. Should not the first duty of the Government be to ease taxation and thereby create an incentive for industrialists to expand their present business?

Dr. JAMES: I must have stated that very badly, sir, because what I said was that the first duty of the government is to encourage private enterprise to this investment.

Hon. Mr. BALLANTYNE: In what way?

Dr. JAMES: By reducing the taxes that are now imposed, as well as changing the pattern of the taxation by making appropriate allowances with regard to depreciation; by facilitating the raising of capital funds in this market and also in foreign markets, as may be necessary; and by facilitating conditions for export. Those were the things that I stated are necessary to do.

Hon. Mr. BALLANTYNE: There is only one thing to do, and that is to ease taxation.

Dr. JAMES: That is what I put first.

Hon. Mr. BALLANTYNE: I do not know if you can do that by depreciation allowances.

Dr. JAMES: Lowering of taxation is the first suggestion on my list.

Hon. Mr. FARRIS: How can you lower taxation without decreasing expenditure?

Dr. JAMES: I said this morning that the first thing to do after the war is to decrease expenditure, even in the emergency period. There is no argument about that. Perhaps I am not making clear the details of what I am trying to talk about.

Hon. Mr. BALLANTYNE: I think we understand clearly enough. You are stressing altogether international trade.

Dr. JAMES: No, sir, I am not.

Hon. Mr. HOWARD: I think you were not here part of the time this morning or this afternoon, Senator Ballantyne, when Dr. James was dealing with this.

The CHAIRMAN: The beginning of Dr. James' statement this afternoon had to do with national income.

Dr. JAMES: May I summarize it in this way? To maintain full employment it is necessary that approximately one-fifth of the Canadian national income be invested in capital goods by government and business. It is much more desirable that that investment should be made by private enterprise by its own efforts and with its own facilities, and, in the light of the background, I think that private investment will rise to that figure, if encouraged. The Government's first job, therefore, is to encourage this. That involves a lowering of taxation, perhaps a change in the pattern of taxation, reduced corporation taxes—

Hon. Mr. BALLANTYNE: —that is all right.

Dr. JAMES: And then a change in the depreciation allowances.

I have forgotten now where I was. Oh, yes. And there should be reasonable arrangements for international trade, along the lines that I mentioned. If, however, private enterprise fails to meet that challenge, if in spite of all those things private enterprise does not invest one-fifth of the national income each year, then it will be necessary for the Government to step into the picture with public investment. That is my sequence of ideas.

Hon. Mr. BALLANTYNE: The Government will have to, because you will not get private enterprise to do it.

Hon. Mr. HAIG: Mr. Chairman, I have a question for Dr. James. He proposes that after the war the Government should reduce expenditures very drastically.

Hon. Mr. BALLANTYNE: Everybody is in favour of that.

Hon. Mr. HAIG: As I understood him, that would avoid the need for excessive taxation. With that object we all agree. As I recall it, Dr. James did not discuss the point that the public will support heavy taxation in a time of war, but would not be inclined to shoulder the same burden in peacetime. Has your Committee considered, Dr. James, that in order to induce private enterprise to invest money in any thing to which a hazard attaches, the percentage of possible profit must be higher than it is under the present system of taxation?

Dr. JAMES: I am glad you raised that, Senator Haig. Of course, part of my difficulty comes from trying to condense a terrific amount of material into a very short period.

Hon. Mr. HAIG: Before you answer, let me say this. I am not raising this point to criticize the present Government or its policy, because I consider that any government in power to-day would have exactly the same policy.

The CHAIRMAN: The same problems.

Dr. JAMES: I appreciate that. That was the very question I was thinking of when I said that it will be necessary not only to reduce taxes after the war—that will be vitally essential—but also to change the pattern of taxation. Even if you reduced present taxes by fifty per cent and got back to more or less the taxation pattern of 1938-39, you would have to remember that in 1938-39 it was difficult to raise venture capital for risky enterprises. I am not prepared at this time to lay down a complete philosophy of taxation, but it is quite obvious that we shall have to change the method of imposing tax burdens on corporations. We shall have to change a good deal of our philosophy of depreciation allowances, and in our taxation to differentiate between money that is used for enterprise development and money that is invested in some other way.

Hon. Mr. HUGESSEN: From a practical point of view, the first tax you would abolish would probably be the excess profits tax?

Dr. JAMES: Emphatically.

Hon. A. L. BEAUBIEN: I think I heard you say that our national income at present is more than seven billion dollars?

Dr. JAMES: I believe it is more than eight billion dollars, Senator Beaubien. It depends upon which group of figures you use.

The CHAIRMAN: Seven and a half billion dollars was the figure quoted for after the war, but it is ten per cent higher than that now.

Hon. A. L. BEAUBIEN: Do you figure that after the war our national income will remain at or close to the present level?

Dr. JAMES: It is of course an arbitrary figure, Senator. The feeling of the Committee is that the present figure is excessive, that people are working a little too hard, that they are taking no leisure, that there are in our factories a good many people who would get out as soon as the war ended, and that there are many others who would like to retire; so that in peacetime we should be

able to maintain a national income equal to about ninety per cent of the present income. That would mean a peacetime figure of about seven and a half billion dollars. That corresponds to about 120 billion dollars in the United States.

Hon. Mr. FARRIS: Did Dr. James finish his general statement? I should like to ask a question, but I do not want to interrupt him before he has completed his remarks.

Dr. JAMES: I was going on to a couple of other things, but it will be convenient to try to answer your questions now, Senator.

Hon. Mr. FARRIS: You suggested that in order to build up an export trade we should have to import luxuries, champagne and things of that kind,—

Dr. JAMES: Well, tea and coffee, as well as champagne.

Hon. Mr. FARRIS: And that among our exports should be capital or loans, and the tourist trade. When I look at the map hanging up on the wall here I am reminded that no other country in the world has alongside it a population such as we have alongside us, in the United States—a spending population which offers a wonderful market for the attractions that this country possesses in scenery, climate, sports and so on. We have had several meetings of this Committee, but you are the only one whom I have heard mention the possibilities of our tourist trade; yet I should have thought that from the standpoint of exports as well as of our home markets, development of the tourist business is one of the prime essentials for after the war.

Dr. JAMES: There is no question about that. I did not go into it, because it is so obvious, but at least one-third of the proposed conservation policy and a good deal of the road construction that have been under discussion, would be carried on with the object of opening up territory in the North-west and other new areas, developing parks and other scenic attractions there, providing better access to old areas, and so on.

Hon. Mr. HAIG: The Alaska highway should be called that, and not the Alcan highway.

Dr. JAMES: I agree with you, sir.

Hon. Mr. FARRIS: We are going to have a new highway running out of Vancouver.

The CHAIRMAN: There is one question I should like to ask Dr. James. It is with reference to his passing remarks about monetary control, according to the Keynes and White reports, being of great interest to Canada. He said, I think, that Great Britain expected to export capital after the war, and certainly the United States would be expected to do so; and that if Canada were to maintain her position she would have to export capital too, in the form of loans. Now, this country is spending about five billion dollars a year, mostly on account of the war. When the war is over, will there be any chance of our enjoying the benefits of the post-war period, in proportion to the effort we put forth in this war, in company with the United States and Great Britain?

Dr. JAMES: The answer to that, Mr. Chairman, would of course be a guess, but I think we certainly are in a position to benefit greatly from our war effort. Whether we shall benefit proportionately with England, I cannot say. I should think, though, that our benefit would be proportionately higher, because England has lost in the war a great deal, which she will have to work very hard to recover.

The CHAIRMAN: After the tremendous effort that is being made by this country of eleven and a half million people, will it not be difficult for us to compete in the exportation of capital after the war is over?

Dr. JAMES: No, Mr. Chairman. I think we shall be greatly advantaged. We have been able to increase tremendously our industrial production, and we should have at the end of the war a substantial capital available for export. How large that will be, in hundreds of millions, I am not able to say.

Hon. Mr. HORNER: Dr. James, we have heard a good deal in this country of the danger of inflation. It has always puzzled me how after their tremendous inflation the Germans were able within a period of twenty years to build up a war machine and to some extent meet the consumer demands of their own country, although they owed money to the entire world.

Hon. Mr. BALLANTYNE: They were able to do it largely by loans from Great Britain and the United States.

Hon. Mr. HORNER: We have been told that one of the great dangers to a nation of inflation is that it would not be able to borrow again. That was not so with Germany.

Dr. JAMES: One of the outstanding revelations of the last twenty years is how good your credit is even if you don't pay your debts. But the answer to the first question is perfectly clear: Germany repudiated all the bonded indebtedness of every corporation and wiped out its national debt. It has been stated as being mathematically correct, and I have checked it, that if the Rockefeller estate had been worth \$30,000,000 in 1913, and the whole of it had been invested in German Government bonds, which were a trustee security in New York State, and they had been held until 1923 and then cashed in at New York, the total proceeds of the estate would have been one twenty-fifth of one cent. There is the measure of the repudiation that occurred. Then having repudiated in that fashion Germany in spite of all that was, as you say, able to borrow from the United States an amount sufficient to pay all its reparation payments plus \$5,400,000,000. There you have, I think, a full explanation of why Germany was able to recover and develop not only its armaments but every other kind of industry.

Hon. A. L. BEAUBIEN: Germany borrowed that from the United States.

Dr. JAMES: Yes, and she got a supplementary six or seven hundred million dollars from England.

Hon. Mr. HORNER: Then in 1939, looking back over the picture, Germany considered she had accomplished a great deal and felt that her course had been a proper one.

Dr. JAMES: In the same way that a highwayman's course is the better one up to the point where he is caught.

Hon. Mr. HORNER: Germany was successful.

Dr. JAMES: Yes, undoubtedly Germany was successful in fooling the rest of the world.

Hon. A. L. BEAUBIEN: Didn't Russia do the same thing? She repudiated everything after the revolution.

Hon. Mr. BALLANTYNE: She is still paying 7 per cent in gold on her own bonds.

The CHAIRMAN: Will you continue, Dr. James?

Dr. JAMES: Yes. Going back to my point, I said if we reached that situation where private investment is not sufficient to maintain prosperity, and the Government is called upon to carry out public investment, that will have to be financed by borrowing. I wanted to add one further point there, namely, that the recognition of that policy of public investment as a marginal factor to take up the slack of private investment at any period implies the necessity of a complete change in our budget philosophy. We should still have an annual budget for probable revenues and expenditures; but so far as public investment expenditures are concerned for the construction of all kinds of projects, it would obviously be necessary to have a budget which extends over a period of years. Mr. Churchill two Sundays ago suggested four years as the period for a plan. That may be perfectly right, politically thinking, but economically I prefer a period of seven or ten years. It may also be true—I mention this

because somebody may think of it—that the adoption of that policy will mean a slight but continuous increase in the total public debt of Canada over the next hundred years. I do not think that is serious. If we are able to maintain full employment in this country, and if we can maintain a national income of \$7,500,000,000, or a figure approximately like that, a slight increase in our national debt which might double it in a hundred years would certainly not be a very serious burden. While I would prefer not to have an increase in debt, I do not see any way at all in the initial generation of such a policy by which we can adjust the thing with such precise accuracy that the excess revenue will be exactly equal to our extra expenditure. I think what counts is not a few hundred million dollars extra debt, but the maintenance of decent jobs for everybody in the community and the general circulation of goods and prosperity.

That is all I was going to say about the maintenance of full employment, and with your consent, Mr. Chairman, I will dismiss the other two things very briefly. The whole question of social security I do not think I need discuss in detail unless there are questions from members of the committee, because there is already before you a very extensive report. It is quite apparent that if we have to maintain a national income of \$7,500,000,000, there will still be certain people who will be in trouble through no fault of their own. There will be a certain amount of unemployment due to the decline of one industry or the failure of one business and people out of work looking for jobs. There will still be people injured by industrial accidents. There will still be people who fall sick, and if they happen to be bread-winners there will be families in distress as a result. There is still the problem of the large family in certain areas creating a group of poverty-stricken individuals below the general standard of living. There is still the question of a substantial number of our people who on reaching the age of 65 or 70 have not been able to accumulate a competence which would enable them to live comfortably. It is necessary, certainly in the early years, that there be some comprehensive programme to take care of those people. The charge on our national income would not be substantial, even when you have added to that a comprehensive health scheme. That is one of the finest investments any country can make, particularly so far as dealing with the health of young people is concerned. Even with all of these together I do not think the actual cost to the Government would come anywhere near the billion dollars which has been suggested in the newspapers. I think one-half of that would be the outside figure.

Hon. A. L. BEAUBIEN: That would be for the Federal Government alone?

Dr. JAMES: No, I mean for the Federal and provincial Governments, but not including private contributions. Private contributions should not, I think, be included, because people still spend money on drugs and doctors. I cannot give you that figure authoritatively. The Committee on Reconstruction is at present making a very careful survey of actual rates and costs, which I hope will be ready in the near future. But we should be able to give all the other things I have mentioned, and this would be enough to provide reasonable freedom from want for that small fringe of our population, which will be higher at first than later on.

If the policies we are talking about succeed over a period of ten or fifteen years, the number of people in distress is apt to be very much smaller. You can see that reduction in the case of public health. It is equally apparent in the case of old age pensions, because the man who has had full employment during his working life at decent wages is much less apt to be in need of assistance than the man who has been in and out of a job through successive depressions.

I mentioned this morning that I had just received a report of a special committee of the Canada-Newfoundland Educational Association on the educational needs of Canada. We are at present—and by “we” I am deliberately avoiding the constitutional question of the British North America Act and

talking of Canada as a nation of people—the Canadian people are to-day spending \$148,000,000 altogether, in all the provinces, which, although I have not had an opportunity to collect detailed statistics, is I am quite certain much lower than the total expenditure per capita, of any other well developed country. It is suggested in this report, which will be in your hands within a week, that an additional expenditure of \$196,000,000 is necessary to bring Canada even two-thirds the way towards the average in the United States in terms of the number of children per teacher, the quality of our school buildings, the availability of local libraries, and all the other things involved. I am not stating that as the final figure which will be considered by the committee. The figure may be raised or lowered.

AN HON. SENATOR: Did you say \$196,000,000 more per year?

DR. JAMES: No. \$196,000,000 more for the first year. As I remember, there would be about \$50,000,000 capital expenditure and \$144,000,000 a year after the first year. I am not for the moment discussing the dollar figure. I am merely giving it to you as indicating the attitude of the Committee. The quality of the education of Canadians is now extraordinarily unequal. The individual who has the good fortune to be born in a town is able by and large to get an education as good as or better than he could get in the United States or Great Britain. But the individual who is born on the Gaspé coast or in certain sections of Northern Ontario or the Prairie Provinces, or in very small rural communities, has very few opportunities and none too good an education. I do not know whether you realize that two-thirds of the school districts in Canada operate schools with not more than two teachers, or not more than two rooms, and that most of those children have no opportunity of going to high school, and that in many cases the teacher has to look after twenty or thirty pupils without any assistant.

HON. MR. HAIG: Two-thirds of the number of schools?

DR. JAMES: Two-thirds of the school board authorities in this country operate schools with only one or two rooms.

HON. MR. HAIG: I think the proportion will be more than that.

DR. JAMES: It may well be. I will have detailed figures later on.

HON. MR. HAIG: It is much more in our province.

DR. JAMES: That makes my statement even worse. I mention that because it seems to me that here is something which is of paramount interest in the reconstruction period; and while it is an expenditure item, as is social security, if we are to build up the major things to maintain our national income through investment and general employment, then that is certainly an expenditure which is worthy of consideration. And even though there is a constitutional problem, which I recognize as being extraordinarily vexatious, I think we have sometime to face a discussion between the Dominion and provincial governments as to the way in which that problem can best be solved. I have no solution to offer at the moment. I simply say it is a problem we should not put away in the back-ground.

Then as a final factor we have to maintain in the long run as high a standard of living in the line of public health and social security as we possibly can. I do not think I need spend very much time in discussing that.

The only remaining factor that comes into the picture is the effective utilization and conservation of our natural resources to maintain and increase our total supply. That is fairly serious. We have during this war exhausted a good many of our known mineral deposits, and prospecting for unused minerals is growing increasingly important with every year of the war. We allowed a good deal of our soil to deteriorate during the depression, and during this war we are not doing a great deal to improve it. I have not the figures for Canada

at the present time, but a detailed study was made in the United States, which probably is roughly comparable with Canada, and the Department of Agriculture in Washington estimates that 33 per cent of all the farm lands in the United States will by the end of the war be in such a condition that it will require careful nutritive treatment with proper fertilizers for three years after the war, and an expenditure of some millions of dollars, in order to bring it back to its proper normal fertility.

The tremendous demands for lumber, and the greater requirement for pulp and paper as a result of the closing out of the Scandinavian source of supply, have led to an excessive utilization of our forests during the war. In all those three fields, minerals, soil conservation and forests, it is vitally necessary at the end of the war not only for the provision of immediate employment, but in order to maintain these essential riches for the next generation of Canadians, that we should endeavour to face the problem of conservation. I have already mentioned the question of water power; that is a natural resource which we have not used as effectively as we might. Once again interprovincial questions are involved. An outstanding problem is the question of the proper control of the north and west Saskatchewan rivers which flow through three provinces; this involves muskrats in Saskatchewan, and also the beautiful view in front of the Banff hotel. I have no solution to offer, but it is perfectly proper that we should look on all these things not only as a means of providing employment for our people after the war, not only as work projects, but as a means by which we can preserve and utilize our resources in such a way that a generation hence the normal national income of Canada will be enhanced. I need not go into further details. I might mention fisheries, and many subdivisions of these problems, but I will stop at this point, Mr. Chairman, in order to leave some time for questions.

Hon Mr. BALLANTYNE: Dr. James, I do not think you touched on the importance of a good immigration policy and of assistance to agriculture on a much larger scale than at present, especially agriculture in Eastern Canada. We want to increase our population and so create employment. The eastern farmer has been and is now in a deplorable condition. I do not know whether you covered immigration and agriculture while I was out.

Dr. JAMES: Yes, sir.

Hon. Mr. BALLANTYNE: Instead of exporting capital would it not be a good deal better to spend it to assist our farmers?

Dr. JAMES: I am not quite sure about that. To take a crude example, which of course does not adequately express your idea, you could pay a farmer to do nothing just as well as buy his wheat and give it away. I have not taken up the question of immigration, sir, because up to this stage I have been dealing purely with the job of finding effective employment for our existing population and trying to maintain its standard of living. In the long-range development of Canada I personally agree whole-heartedly with you that one of the things we have to do is to enlarge our population and encourage the right kind of immigration by providing proper assistance for it.

Hon. A. L. BEAUBIEN: If you have to provide assistance for immigration, you might as well leave those people where they are.

Hon. Mr. BALLANTYNE: No. I have only one scheme in mind, and it may not be a very good one. There are many fine abandoned farms in eastern Canada where immigrants coming to this country could be put on the land. If they engage in grain growing or fruit growing, I think they should be assisted to put those farms in operation again. I would certainly spend a good deal of money on such a proposition, and I also would try to get better prices for farm products. I do not pretend to be a farmer, but I have always been interested in farming. I have run a farm, perhaps not very successfully, but I am familiar with the position of farmers in eastern Canada, and I may

tell you it is deplorable. I should like to see money spent on getting good farmers back on these abandoned farms.

Dr. JAMES: That is being discussed, but I cannot speak as to the conclusions, because we have not yet reached them.

Hon. Mr. BUCHANAN: You mentioned the Saskatchewan river project. Is an engineering study being made of that?

Dr. JAMES: Not at the moment. There were some engineering studies made in the past, but at present we are having discussions with Manitoba, Saskatchewan and Alberta before going forward with that project.

Hon. Mr. HORNER: The great handicap of this country is a lack of people. If the money that other parts of the Empire gave to Germany and lost had been spent here, even in assisting immigrants and farmers to get a fair, decent living, there is an unlimited opportunity in western Canada to make not a million but a comfortable living.

Dr. JAMES: I think I would agree with that. I think everybody would.

Hon. A. L. BEAUBIEN: Mr. Chairman, this committee is indeed indebted to Dr. James for coming here to-day and making this presentation to us. I am sure I am expressing the views of every member of this committee when I say we thank him sincerely.

Some Hon. SENATORS: Hear, hear.

The CHAIRMAN: It is a great pleasure to extend the thanks of the committee to you, Dr. James.

Hon. Mr. HAIG: I move that we adjourn.

The CHAIRMAN: We will adjourn to Wednesday morning, April 14th.

The committee adjourned until Wednesday, April 14.

THE SENATE OF CANADA



PROCEEDINGS

OF THE

SPECIAL COMMITTEE

ON

**ECONOMIC RE-ESTABLISHMENT
AND SOCIAL SECURITY**

No. 2

The Honourable Norman P. Lambert, Chairman

WITNESSES:

- Mr. F. P. L. Lane, First Vice-President, Canadian Manufacturers' Association.
Mr. J. T. Stirrett, General Manager, Canadian Manufacturers' Association.
Mr. H. Crabtree, President, Allied War Supplies Corporation, Montreal.
Major L. L. Anthes, President, Anthes Foundry, Limited, Toronto.
Mr. G. B. Gordon, President, Dominion Textile Company, Limited, Montreal.
Mr. N. P. Petersen, President, Canadian Acme Screw & Gear Company, Limited, Toronto.
Mr. H. M. Jaquays, Vice-President, The Steel Company of Canada, Limited, Montreal.
Mr. J. D. Johnson, President, Canada Cement Company, Limited, Montreal.
Mr. Wm. R. Yendall, President and Treasurer, Richards-Wilcox Canadian Company, London.
Mr. E. C. Burton, President and Manager, Link-Belt, Limited, Toronto.
Mr. L. W. Simms, President, T. S. Simms & Company, Limited, Saint John, N.B.





ORDER OF APPOINTMENT

*Extract from the Minutes of the Proceedings of The Senate
for the 5th March, 1943*

Ordered,—That a Special Committee be appointed to consider and report upon matters arising out of post-war conditions, particularly those relating to problems of reconstruction and re-establishment and a national scheme of social and health insurance; and that the said Committee have authority to send for persons, papers and records.

Ordered,—That the Special Committee appointed to consider and report upon matters arising out of post-war conditions, particularly those relating to problems of reconstruction and re-establishment and a national scheme of social and health insurance, be composed of 38 members, namely; the Honourable Senators Aseltine, Ballantyne, Beaubien (*Montarville*), Beaubien (*St. Jean Baptiste*), Blais, Buchanan, Copp, David, Donnelly, DuTremblay, Fallis, Farris, Gouin, Haig, Horner, Howard, Hugessen, Jones, King, Lacasse, Lambert, Leger, Macdonald (*Cardigan*), Macdonald (*Richmond-West Cape Breton*), MacLennan, McRae, Marshall, Michener, Murdock, Paterson, Paquet, Robertson, Robicheau, Sinclair, Smith (*Victoria-Carleton*), Stevenson, White, and Wilson.

MINUTES OF EVIDENCE

THE SENATE,

OTTAWA, TUESDAY, April 14, 1943.

The Special Committee appointed to consider and report upon matters arising out of post-war conditions, particularly those relating to a national scheme of social and health insurance, met this day at 11.15 a.m.

Hon. Norman P. Lambert in the Chair.

The CHAIRMAN: Gentlemen, if you will please come to order, we will consider the program for this morning.

The Canadian Manufacturers' Association has responded generously to our request to have representation before us, and we have here to-day a representative group of manufacturers of this country. The Association's brief or statement will be presented to us by Mr. Lane, First Vice-President of the Association and Vice-President of the Imperial Tobacco Company of Canada, Limited, Montreal. After he has presented the statement there will be one or two additions from distinguished members of the delegation who in the past have occupied the position of President of the Association.

I do not think there is very much more I need say. We can open up discussion later with regard to anything that arises out of the statement. Dr. King has agreed that the Senate's sitting this afternoon will be short, so that we may come back here again at a reasonably early hour after we adjourn this morning's meeting.

May I add that it is a great pleasure and privilege to have here at my right the Chairman of the House of Commons Committee on Reconstruction and Re-establishment, Mr. J. G. Turgeon. I am sure he would not mind being over here permanently, and I personally should be glad if he were.

Without further delay, I will ask Mr. Lane if he would be good enough to address the committee.

Mr. F. P. L. LANE: Mr. Chairman and Gentlemen, Mr. Lang, the President of the Association, is unfortunately, confined to his home with a severe cold. He asked me to convey to you his sincere regret that he was unable to be here to-day.

(B follows, being "Submissions to the Chairman and Members of the Senate Committee on Post-War Reconstruction and Re-establishment by the Canadian Manufacturers' Association on Post-War Problems of the Manufacturing Industry," read by Mr. Lane.)

SUBMISSIONS TO THE CHAIRMAN AND MEMBERS OF THE SENATE COMMITTEE ON POST-WAR RECONSTRUCTION AND RE-ESTABLISHMENT BY THE CANADIAN MANUFACTURERS' ASSOCIATION ON POST-WAR PROBLEMS OF THE MANUFACTURING INDUSTRY.

- OTTAWA, April 14, 1943.

Hon. Norman Lambert, Chairman, and Members of the Senate Committee on Post-War Reconstruction and Re-Establishment.

GENTLEMEN:

We are very grateful to the Chairman and members of the Senate Committee on Post-War Reconstruction and Re-Establishment for this opportunity to discuss post-war problems with you. The war, of course, has been, is, and will be until its end the prime concern of Canadian industry. We believe, however, that the prosecution of the war will be aided rather than impeded by studying some of the questions which will likely face those connected with Canadian industry when the war is over.

As citizens, we are naturally interested in and affected by all national and international problems, but for present purposes we feel it desirable to confine our remarks largely to specific problems and responsibilities which face the manufacturing industry.

In this preliminary discussion we are attempting to state some of the post-war problems which may confront Canadian industry, and to offer some suggestions for application in so far as changing conditions and circumstances will permit. There are so many unknown factors that it would be difficult to attempt to lay down definitely the future industrial policy of this country. This is particularly so with respect to international matters. At this period no one knows when the war will end, what the terms of the peace treaty will be, how they will be enforced, or what part Canada may play in the peace settlement, how great will be the volume of new productive capacity which will be developed in various countries, to what extent raw materials and resources will be depleted how much damage will be incurred in many countries, or what the international financial and transportation situations will be.

It seems that the main task of manufacturers will be the reconversion of Canada's expanded wartime manufacturing facilities to provide jobs in private industry by supplying peacetime goods and services. In the years immediately preceding the war the manufacturing industry employed about 650,000 persons, or about one sixth of those gainfully occupied in Canada, and produced annually goods to the value of about \$3,500,000,000. The number employed in manufacturing today is at least 1,250,000, which appears to be almost one fourth of all Canadians gainfully occupied, including those in the armed forces, and it is estimated that the gross production of manufactured goods in 1942 was about \$8,000,000,000. According to the Association's Canadian Trade Index returns about 4,000 Canadian manufacturers report that they are on direct and indirect war work. Of these over 2,000 report that more than 50 per cent of their production now consists of direct and indirect war work, and over 1,500 report that more than 75 per cent of their production is war work.

At the conclusion of the war most war orders will cease, and it is not probable that the manufacturing industry will be able to maintain such a high level of employment, unless the tremendous wartime expansion of Canada's foreign trade can be maintained. Prior to the war Canada's annual exports were something less

than \$1,000,000,000, about 70 per cent of which consisted of partially manufactured and fully manufactured goods. In 1942 under the impetus of war production Canada's exports had increased to almost \$2,500,000,000. The Department of Munitions and Supply estimates that 70 per cent of Canada's munitions production is shipped to our Allies.

Even if a very high level of employment in manufacturing is maintained, it is not likely that it will take care of one fourth of all those gainfully occupied, because industry's concentration on war work and government restrictions on civilian production and sales have resulted in the number of those employed in the distributive and other trades being presently much lower than it would be normally in relation to employment in factories. Even in the very highly industrialized United States less than 25 per cent of the total gainfully occupied were employed in manufacturing, according to the 1940 decennial census figures.

On balance, however, as a result of a number of favourable factors, it is probable that employment in manufacturing will be much greater than it was in pre-war years. Some of the favourable factors are:—

1. The last three years have witnessed enormous expansion of old and new industries in Canada. For example, facilities for the production of steel, non-ferrous metals, chemicals, machinery, ships and electric power have been greatly enlarged. Furthermore, many new types of products, materials and processes have been developed which may be used in peacetime and provide new jobs. We might mention plastics, magnesium, aircraft, electronics, and glass. For example, in Canada today there are thirty companies moulding plastics.

2. Transportation facilities will be greatly extended by projects such as the Alaska Highway and new airport facilities across Canada.

3. There will be a great increase in the knowledge, experience and skill of the Canadian people, including the members of the Navy, Army, Air Force, Merchant Marine, and those engaged in producing munitions and supplies of all kinds. Tens of thousands of Canadians will have received the finest type of technical education and training over a period of several years and this will be a most valuable national asset.

4. There will be a great accumulated demand for goods and services. The intense demands the war is making and will make to an increasing extent upon our productive resources will result in more and more shortages of consumer goods, especially durable goods such as automobiles, washing machines, refrigerators, and radios. If the war lasts much longer, there are likely to be great shortages of non-durable goods such as clothing. In Canada as a result of controls on construction, steel, metals, supplies, chemicals, timber, and restriction of outlays for maintenance and repair, particularly in non-war industries, the replacements may be abnormally large for some time after the war.

5. As a result of savings from investments in war bonds and war savings certificates, and from refundable income tax credits, it may be anticipated that at the end of the war many people will be in a good position to buy goods. This situation is also influenced by the fact that debts are being paid off, and there have been limitations on instalment buying. However, the attitude of individuals in purchasing goods and investing in new enterprises will depend to a great extent on confidence in the future, and their opportunity to purchase what they want by the degree of control which may be maintained in the transition period.

6. There will be undoubtedly a demand from abroad for goods, raw materials and reconstruction goods, many of which Canada will be in a good position to furnish. Also, it can be assumed that overseas countries will try to regain their former standard of living and then improve it.

7. Of the estimated one and one-quarter million employed in manufacturing at the present time something over one-fourth are women, many of whom will return to their homes, or usual occupations (such as in retail stores, domestic service, etc.) when the war is over. In addition many people are now working who would normally be retired, and others working who would normally be continuing their education. Also, many men, as well as women, will be returning to their usual occupations, such as farming, distribution, and various service industries.

8. There will likely be a retarded rate of demobilization of the armed forces as compared with the last war. It seems that hostilities may cease in some areas many months before the war ends elsewhere. Policing requirements attending the re-establishment of responsible governments will doubtless be much greater, and there will be complex problems in relief administration, salvaging operations, and reconstruction activities, which will keep many Canadians employed.

In addition to the above factors peculiar to the present situation there is also the fact that the history of past wars indicates that, following a short period of hesitation, there has been a period of replacement and expansion, sometimes followed by a bad depression as in 1920-21, and then followed by a fairly lengthy period of recovery and prosperity. Indeed, the depression of 1920-21 was partly the result of inflation, which resulted in abnormally high prices. For example, in Canada the wholesale price index was 165 per cent higher in May, 1920, than it was in July, 1914. To date during the present war price control in Canada has been successful in checking too rapid a rise, and the wholesale price index in February, 1943, was only about 35 per cent higher than it was in August, 1939.

On the other hand we are faced with some unfavourable factors, such as:—

1. Unprecedented size of the re-employment problem. While many people now working may not be seeking work at the end of the war, there is no doubt that the war will have caused a much greater expansion in Canada's working force than would have occurred otherwise.

2. The difficulty in reconverting some industries. The Great War ended before the conversion of industries to war production had occurred on a wholesale scale. There was nothing comparable to the transformation which has taken place in this war in such industries as automobile, electrical equipment, machinery, and the engineering and metal-working industries generally, nor was there such tremendous development in any industries in 1914-1918 as is now taking place in the aircraft industry, the shipbuilding industry, the machine tool industry, the steel industry, the base metal industry, the chemical industry, and others.

3. Shortage of working capital in many industries which are almost entirely converted to war production. Many manufacturers have strained themselves to a maximum war effort, and by so doing the building up of reserve capital has been found completely out of the question.

4. The rate of taxation. The Excess Profits Tax and the Corporation Income Tax make it impossible for many manufacturers to build up adequate reserves for future expansion of their businesses. To make

the products people want at prices which they can afford to pay, plants must be equipped with power-driven, highly complicated, expensive machines, and with suitable buildings to house them.

5. Unfavourable relation of manufacturing costs and prices. Generally speaking, the price ceiling has been strictly applied to the selling prices of manufactured products, whereas many important products, often the raw materials of industry, are not bound by the ceilings. Also there have been many breaks through the wages ceiling, and present indications are that more are to be expected. To some extent this unfavourable situation has been mitigated by technological advances and economies in production. However, many economies which can be effected when a factory is producing a standardized article in great volume for war purposes cannot be effected when the same factory produces the diversified products of peace.

Many manufacturers with whom we have discussed these matters and who are studying trends carefully are hopeful that they may be able to increase their volume of production and employment after the war, at least during the transition period, as compared with their pre-war production and employment. However, in their view, this will depend to a great extent on international and domestic policies which may be now in the making.

Manufacturers with whom we have consulted believe that the best chance of providing the maximum volume of production and employment in manufacturing after the war will depend on the extent to which individual initiative, effort and thrift are maintained and encouraged. Upon individual initiative, effort and thrift this country has been built up, and these made it possible for Canada to undertake the gigantic conversion from peace production to war production.

Looking back over the past three and one-half years, we see clearly now how fortunate it was that, in spite of discouragements and difficulties, an industrial system had been developed in this country. Where would Canada have been to-day if she had no established and proved industrial system and experienced industrial employees? We could not have undertaken the industrial tasks, many of them entirely new, that have been placed on the shoulders of Canadian manufacturers and their employees since the beginning of the war. With the experience, the personnel, the equipment, and the factories, all fruits of individual initiative, available, Canadians have grappled with the most difficult and complicated problems of war production, have solved many and will solve many more, including the problems of the coming post-war period.

Opposed to the democratic policy of individual initiative, ownership and control are the various forms of completely planned economy under state control. When all is said and done, planned economy depends upon the degree of force which the state adopts. To date there has been no evidence that a country can adopt complete state planning without Government regimentation of the whole economic system, and of the individual lives of each and every one of its citizens. A totalitarian state can prepare and function efficiently in war for a time, but no totalitarian state has yet shown that it can operate its industries as efficiently for the production of the necessities, conveniences and luxuries of life as can a democratic state. Experience has shown that when once the state is the chief or the only employer, and owns most or all the instruments of production, government by democratic processes can no longer exist. When the Government takes the responsibility of assuring jobs and incomes then the Government must have power and authority to command, to dictate, and to implement this policy.

Most manufacturers consulted are of the opinion that, while wartime controls should be removed as soon as possible, it is unlikely that some of them can be abolished immediately the war is over, especially those affecting prices, materials, and foreign exchange. Post-war inflation (as occurred following the last world war) is looked upon as one of the greatest, if not the greatest, possible catastrophes which might befall the world. Industry, however, is fearful lest controls be continued to the point where there is a danger of their becoming permanent. It is suggested that controls be removed in an orderly fashion, and that industry be consulted while this is being done.

We believe that your Committee may be interested in the following general observations which are the result of information received from numerous manufacturers through conferences, interviews, and correspondence.

Many firms believe that they can almost immediately turn back to their peacetime production, but in certain metal-working industries, mainly or wholly on war work, it is expected that up to six months will be required to do this.

Generally speaking, Canadian manufacturers plan to use the same dies, patterns, styles, etc., that they used for their last or current civilian production, in order to get back quickly into peacetime production. This is subject, of course, to some modifications and minor changes in products. Some firms say that products involving drastic changes in design will not come on the market for some time after the war.

In this connection there is a problem which faces a number of Canadian manufacturers, namely, that the regulation of November 20, 1940, prohibiting the manufacture of new models in Canada. It appears that the manufacture of new models is not prohibited in the United States, although it may be that the administration of priorities may have somewhat the same effect. We would suggest that the Government make careful enquiries on this point, and if it is established that less severe restrictions are applicable in the United States, that the Canadian restrictions should be modified accordingly. In any event, it is submitted that the restrictions on the production of new models in Canada be rescinded at the earliest possible moment. It is interesting to note that this very point of providing facilities for producing up-to-date models is being discussed by the British Government with British industry. (See House of Commons Debates [London], Feb. 23, 1943.)

Most Canadian manufacturing firms state that their equipment is in good shape and modern. In most cases where firms need new equipment, they do not anticipate any difficulty in getting it from Canada's expanded machinery industry.

Many firms state that they will not need to undertake extensive building changes.

As far as the domestic market is concerned, many manufacturers think that they will be able to resume their trade connections, but they do think that there may be difficulty in export markets. It is urged that the Government do everything possible to enable Canadian exporters to maintain their export connections, in so far as the exigencies of the war will permit.

Many firms have learned new methods of efficiency, including simplified practice, during the war, and they intend to retain these after the war.

Many firms are planning new products, or planning to apply to peacetime production some of the materials and articles they are now making for war.

Many firms do not expect any great difficulty in obtaining raw materials, and think that they can get these within two or three months or so after the war. However, other firms expect longer delays.

The question of wage rates will be a pressing one, if Canada is to continue to compete in the world market, or hold the domestic market against imports from countries with low living standards. Wage rates are estimated to be

about 25 per cent higher than before the war. To the extent that goods cannot be sold at home or abroad because their cost of production is relatively too high, the volume of employment available for Canadians will decline.

The disposal of Government-owned plants and machinery is a live topic among manufacturers. Manufacturers feel that the Government should not enter into the post-war industrial field in competition with private industry, from whom and whose employees it receives such a large part of its tax revenue. Therefore, Government-owned plants and machinery should only be disposed of in a very careful manner after consultation with the manufacturers affected.

Manufacturers believe that after the war Canada should maintain up-to-date facilities for manufacturing adequate weapons and munitions of war.

Although many manufacturers are making surveys of the probable post-war domestic markets, most of them find it difficult to estimate post-war export prospects. In the years immediately before the war, 20 per cent of Canada's annual manufacturing production was exported, which indicates the value of export trade to Canadian industry. Therefore, the maintenance of industrial employment in this country is vitally dependent on markets abroad and the establishment of sound principles of international trade. The Department of Trade and Commerce and the Canadian Trade Commissioners have been of great service in developing Canadian export trade and Canadian exporters recommended that these facilities be maintained and extended, where necessary.

In addition to the unknown factors affecting industry generally referred to at the beginning of this statement, there are a number of others peculiar to the export field, such as:—

1. To what extent will other countries abolish import and exchange restrictions and quotas and reduce their customs tariffs? There has been some talk of this but as yet no action.
2. To what extent will exchanges be stabilized? For example, what might be the effect of the comprehensive proposals announced recently by the British and American Governments for the stabilization of exchanges?
3. Many of our members have greatly increased their exports through Imperial preferential tariffs. What is to be the future of these preferences?
4. To what extent will the system of lend-lease be continued after the war?

In regard to Canada's fiscal policy, we think it fair to say that while there have been differences of opinion among Canadians in regard to rates, tariffs have been part of the Canadian industrial system since its beginning. It is a fact that prior to the war Canada did not apply any additional restrictions to imported goods such as, exchange restrictions, import licensing and quotas, although in the thirties such additional restrictions were common throughout the world. Those connected with Canadian industry are naturally wondering what effect international settlements, including trade agreements, may have on Canada's domestic economy. It is respectfully submitted that before any vital changes are made in Canada's fiscal policy manufacturers and others should be afforded an opportunity to present their views.

Particular attention should be given to retaining and developing further in Canada important industries, such as steel, base metals, machinery, electrical equipment, motor car, metalworking, ship-building, leather, textile, oil, chemical, food, paper, lumbering, etc., on which Canada's war production is based, as well as those industries in which remarkable new developments are taking place, such as, aircraft, alloy steel, magnesium, plastics and glass, which have proved so vital in the war.

In raising some of these questions, we realize that your Committee, like ourselves, may have difficulty in providing even partial answers at this time, but we mention them as unknown factors which make the solution of certain important problems very difficult. We have dealt chiefly with problems of special concern to manufacturers but we are vitally interested also in the Government's problems which are numerous and onerous, and also in the problems of those in other occupational groups, such as, agriculture, forestry, fishing, mining, trade, transportation, construction, and finance. Canada is making a great national war effort and if the problems which peace will bring are to be solved. Canada should also organize and carry out a great national peace effort and in this manufacturers keenly desire to co-operate with the Government and with other groups in every possible way.

L. L. LANG,
President.

Mr. LANE: I might conclude, Mr. Chairman, by saying that we are not prepared to submit any supplementary statements. Our understanding was, subject to your approval, that we would answer to the best of our ability any questions that the committee might wish to put to us.

The CHAIRMAN: I am sure we are very grateful to Mr. Lane for the comprehensive analysis he has just read to us. The meeting is now open for any questions arising out of his statements. Possibly I was guilty of a little over-statement when I said, by way of introduction, that additional presentations would be made by ex-Presidents of the Association. What I really had in mind was this: we have here Mr. Crabtree and Mr. Anthes, Past Presidents of the C. M. A., who have these post-war problems very close to their minds, and I know we should be glad to hear from them. Mr. Crabtree's position as President of Allied War Supplies Corporation, under the Department of Munitions and Supply, makes him responsible for a very important group of industries under Government direction and control, and he might care to say something to us on the prospects of those industries, especially the chemical group, which I think are his special care.

I have no doubt that the problems enumerated in the Association's brief apply to those industries as well as to private industries. The shifting from wartime to peacetime economy will bring the question of what we are going to do with those Government industries, how many of them will be continued and how many will be put up for sale; and, above all else, what measure of employment we can expect to be provided by those industries. I just mention this as a suggestion to start the ball rolling.

Mr. H. CRABTREE, President, Allied War Supplies Corporation, Montreal: Mr. Chairman and Gentlemen, I had not intended to say anything to supplement the brief that has been presented to you this morning. I take it that the reason for this meeting is an attempt to find some solution for the one problem that is bound to be with us after the war is over, the problem of employment; and that if we felt that problem would not exist, this meeting would be unnecessary.

So far as the Canadian Manufacturers' Association is concerned, it has said, in the brief presented here, that the extent to which manufacturers will be able to provide employment depends upon certain factors which have been enumerated. If we knew ourselves just what the economic position was going to be, relating both to our domestic economy and to international affairs, we might be in a position to venture a more intelligent opinion than we can at the present time. In this country the great system of free enterprise, on which our Canadian industrial economy has been based, has done a marvellous war job. It is bearing the brunt of the entire manufacturing. That same system, if

continued to be exercised through Canadian industry, given the right conditions—the support of governments, a sound labour policy and a healthy fiscal policy—can and will do a great deal in the solution of the unemployment problem. It is hardly to be expected that Canadian industry will be able to find an answer to all these phases of the unemployment problem that will face us after this war; but, frankly, sir, I do not know of any other system or machinery that can serve this country so well as the system of free enterprise. I repeat that, given encouragement and assistance by governments, it will go a long way in alleviating the problem.

As regards the industries with which I have the honour to be connected, Allied War Supplies, they too come in the same category. It is difficult at this stage to tell just how many of those industries may continue to operate after the war is over. That matter has been touched on in the brief, and I strongly support the recommendation made there, that there should be no attempt by the Government to operate these industries, unless after the fullest consideration has been given to the question of just what effect they might have on the country's economy.

The CHAIRMAN: Mr. Anthes, would you care to say something now?

Mr. L. L. ANTHERS, President, Anthes Foundry Limited, Toronto; Mr. Chairman and Honourable Gentlemen of the Senate, I think that the submissions in the brief, backed up by the terse remarks of Mr. Crabtree, cover the ground very fully. I am entirely in accord with what is outlined in the brief, which we trust will meet with your consideration and approval. I thank you for the privilege of coming here and expressing our views before you.

The CHAIRMAN: The textile group is one of the specialized groups of industry which have been considering post-war problems. I think we would be glad to hear from you, Mr. Gordon, if you can tell us what you are trying to do or your approach to this situation.

Mr. G. B. GORDON (Dominion Textile Co. Ltd.): Mr. Chairman and honourable gentlemen, I cannot say honestly that we have been able to go very far into the future, because our industry for its past history has been a world industry, and such business as we have developed in Canada, and certain export markets, have been through tariff protection in this country and through favourable relationships and tariffs in other parts of the world. We do not know what the general international set-up is going to be. It may have a good reaction on our industry, but we cannot tell. All we can do at the present time, really, is to do the best job we can on the war picture with our plants as they are.

We have not had to extend greatly; in fact, we have not been able to extend because of shortages of various metals and so on. The textile industry can convert quickly. One particular feature is that we can go back quickly to peace time work. The equipment will go back in a very few weeks time to pick up the demand that might arise after the war. We realize that and are trying to keep ourselves in a liquid position to, perhaps, replace worn-out machinery.

That, I think, is about all I can tell you at the moment. I do not think there is much use in trying to dip into the future too far.

Hon. Mr. DAVID: Is it not affected by the use of models?

Mr. GORDON: I would say not very much.

The CHAIRMAN: Thank you, Mr. Gordon.

We have understood that the iron and steel and machinery industries and the heavy industries have constituted themselves into a group for the consideration of the same sort of problems we have here. I think there are representatives here of the Dominion Engineering, and Mr. Petersen, and possibly some one from the Steel Co. of Canada. They have had a good deal

of expansion, I have no doubt, as a result of the war, and I think we would be glad to hear from them just how severe the problem of adjusting to peace time demands will be. Is Mr. Petersen here?

Mr. N. P. PETERSEN (Canadian Acme Screw & Gear, Ltd.): Mr. Chairman and honourable gentlemen of the committee, as regards standards for the future, naturally we are restricted in our planning by the same general uncertainties which have already been discussed. If I may, I should like to point out that in our brief here, on page 7, reference has been made to a shortage of capital, or working capital, in many industries, and ask at this time if this committee might consider, and perhaps recommend that, in the next budget or sooner, business be allowed to set up reserves not subject to excess profits taxes, so as to give us capital for reconversion.

This, as you will probably remind me, is not original. I believe within the last two weeks there have been very serious discussions about that very point in Washington. Under our present tax plan manufacturers are not able to maintain their working capital position, or to put aside anything for development work on new models.

I should also like to suggest or re-emphasize what was said in the brief, that when the Government is considering new trade agreements, or changes in tariffs, the manufacturers or business people be heard at some length—it may be at great length—before such agreements are concluded. In the past we have been generally quite surprised not only at the type of agreement but at the scope and operation of it.

I might refer to the fact that in England, through the Board of Trade, the president of which is a member of the government, all tariff matters are pretty well discussed before changes are made. We have here a Tariff Commission, which since 1934 has done excellent work, and I hope more use will be made of that commission in hearing the problems of manufacturers and in the making of recommendations for future policies.

You probably know also that in Washington no tariff changes are contemplated without wide inquiries by such committees as yours.

These two things, I believe, if you consider them worthy, could be part of your decision, and you would certainly get all the support from industry that such things would deserve.

The CHAIRMAN: Thank you.

Is Mr. Jaquays here?

Mr. H. M. JAQUAYS (The Steel Company of Canada, Ltd.): Mr. Chairman and honourable members of the Senate, the subject which we have before us to-day is a very large one. It is one which cannot be discussed in a few words, and I fear that anything I say would not be of much advantage unless I kept the committee to the breaking of their patience.

Fortunately, in the steel industry, especially in our own company, the steel demanded by war is very similar to the steel demanded by peace. It may be that there are certain alloys required in war and developed in war time which are not in such great demand in peace time. But probably there will be a demand for those things after the war, though to what extent we are unable to say, because technological development has introduced so many things into our lives which we did not have in the pre-war days, such as plastics and aluminum. How far these things will replace steel we do not know, but we have confidence in the fact that in the past steel has been an ever-growing industry and has been the backbone of many supplementary industries in the country. Therefore we expect that, if all those industries increase their volume, there will be an increased demand for steel.

So far as our own company is concerned, we are more or less realists, and have appointed certain men who are studying this matter and keeping files as to what developments we may make after the war, and the effect of war-time development on the post-war period. What will be the outcome, I cannot say, but matters of this sort require very careful consideration. Small changes are very far reaching and one hesitates to speak offhand about the effect of them. If you desire any information, however, we will be able to help, or if you are in fact with us in the future we will be glad to co-operate with you.

The CHAIRMAN: Thank you, very much.

Now, Mr. Johnson, have you any ideas about construction?

Mr. J. P. JOHNSON (Canada Cement Co. Ltd.): Mr. Chairman, honourable senators and gentlemen, so far as the cement industry is concerned, I do not think it can be considered except in connection with the building industry itself, and as I do not see anyone here representing that industry, perhaps I should say a few words on the subject.

The industry itself will go through a period of slackness between now and the end of the war, which will give it an opportunity at least to repair its fences and be ready for anything that may come after the war.

We look for a great deal of activity. Unquestionably there will be a great deal of delayed maintenance through manufacturing industries, the railways, road work and that sort of thing. In addition to that there is a lot of work that will be thought about by the different municipalities—a lot of construction which has been delayed—water works, sewer systems, sidewalks and pavements, lighting systems and many other things. Almost every city has a program of greater or less magnitude, so the building industry should be fairly active after the war is over, and many more men should be employed in it after peace has been signed than will be engaged in it between now and that time.

I do not know that I can add anything, except to say that certain other projects have been mentioned from time to time—I do not need to mention them—and if undertaken they will mean a vast employment program.

The CHAIRMAN: Have you any idea of the extent to which the housing project would go? We hear a good deal about housing projects.

Mr. JOHNSON: The housing project is a very fine project as far as labour is concerned. The labour in a house is a very big item; the material is not so heavy. It requires perhaps more labour per dollar expended than any other type of industry.

The CHAIRMAN: Do you think housing conditions as you know them are such in the various centres that such a project needs to be undertaken.

Mr. JOHNSON: Yes. There has been a lot of war-time housing construction, but I think it will be found after the war that it is in the wrong places, and that ordinary building will have to go on just the same so that houses may be built where they are needed in peace time.

The CHAIRMAN: A group of construction men are now working on plans which indicate that the private construction industry, as I take it, would have a capacity of handling a \$600,000,000 job in this country. That suggestion has come, I think, from the wartime housing group. Have you had any intimation as to the extent of that, Mr. Johnson?

Mr. JOHNSON: No, I have not.

The CHAIRMAN: Would you think that would be a pretty big project to undertake?

Mr. JOHNSON: It would be a big project for one firm to undertake.

The CHAIRMAN: For a group of firms?

Mr. JOHNSON: I think that undoubtedly the prospective volume in housing is of that extent.

The CHAIRMAN: Have questions occurred to any members of the Committee?

Hon. Mr. BLACK: Mr. Chairman and Gentlemen, I have listened with a great deal of interest to the brief and to the remarks made subsequently. I have no questions that are particularly constructive; I wish I had. But, after all, what is said before this committee or before any other group dealing with post-war questions is to a considerable degree a matter of guess-work.

One question occurred to me with regard to these government-owned and operated industries, which are now doing a very excellent work for the country. From the remarks made by the head of that group of industries, I assume it is likely that they will not be in competition with private industry after the war. I hope they will not be. Personally, I believe we should never attempt to get away from the incentive of private industry for private gain, because our country and our English democracy, at all events, have been built up on private industry and initiative. Can the head of that group give us any further enlightenment? I do not wish him to say anything to embarrass himself or the Government, but has he any information that he can give us with regard to those government-owned manufacturing institutions that will not be continued after the war and compete with private industry?

Hon. Mr. KING: Mr. Chairman, the brief mentioned that the men who are now serving in the armed forces will be returning from the war better qualified to take their places in industry, that they will have better technical and mechanical knowledge than they had when they went away. The brief makes it plain that that will be to the advantage of industry. When that part was being read I was reminded of certain legislation that we have passed. The Government naturally thought first and primarily of the fighting men, and it is hoped that the legislation will be of advantage to them. One of the measures was modelled on an Act passed first in Great Britain, and afterwards in Australia and New Zealand. The object of this was to make sure as far as possible that upon the return of any soldier who had left industry to enlist, he should be given the opportunity of returning to his former employment in that industry. Would it be feasible to have a statement from industrial leaders present on their reaction to that legislation? Is that a fair question, Mr. Chairman?

The CHAIRMAN: That is a fair question, I think. Can you give us any light on that, Mr. Lane?

Mr. LANE: May I suggest, sir, that it might be easier to answer the question if it were put specifically to representatives of various industries, rather than in a general way?

Hon. Mr. KING: As I have stated, the Government presented and Parliament passed legislation, modelled upon measures passed in Great Britain, New Zealand and Australia, for the protection of men who left industrial employment to enlist, the object being to ensure that as far as possible on their return they could go back to their old employment. We know there will be many difficulties in the actual carrying out of this law. I think one reason for passing it was the hope of avoiding what happened after the last war, when men returned and found there was no place for them in the industries where they had worked before enlisting. In the Association's brief the statement was made that men now in the armed forces are receiving mechanical and technical training which will make them more valuable to industry when they return than they were when they left, and I thought it would be proper to ask for a statement on the reaction of industrial leaders to this legislation.

Mr. JOHNSON: Mr. Chairman, in all my experience since that legislation was passed, I have never heard one single objection to it. I think everybody is one hundred per cent for it, and nobody has any other idea but that we should take back all these men into their former jobs.

HON. A. L. BEAUBIEN: Mr. Chairman, after the last war industries had expanded to a point far beyond what was needed to produce consumer goods for the Canadian people, and in general these industries had a very large overhead. I should like to find out what the position of industry will be after this war. Are they allowed to write off a certain amount of their capital expenditures, so that when the war is over they will not have such a heavy overhead as they did at the end of the last war?

In the House of Commons, of which I was a member from 1921 to 1940, we heard many demands for a higher and still higher tariff in order to protect industries; and through discussion and inquiry I discovered that some of those industries could never survive, if you gave them a tariff as high as the wall around this room, because they had over-expanded and acquired a tremendous overhead during the last war. Will their products be able to compete with goods coming from other countries under a moderate tariff, or will there be a demand for a very high tariff, as there was after the last war?

THE CHAIRMAN: Reference is made in the Association's brief to the point that you have raised, Senator Beaubien. Uncertainty as to the post-war settlement is one main factor in making it impossible for the manufacturers or anybody else to say just what part the tariff will play in connection with industry. I think there will probably be a new technique altogether arising out of the post-war peace conference, and a situation dominated by exchange control considerations rather than customs tariffs. That is a general statement, and I do not know how far the members of the committee and our guests here would agree with it, but if it is true it would mean that the old tariff problem, such as we had after the last war, would be relegated to oblivion, more or less.

HON. MR. DONNELLY: Mr. Chairman, speaking as a member of the committee, I should like to express my appreciation of the courtesy of the delegation for presenting the brief and answering questions. My conception of the duties of this committee is—I am speaking only for myself—that all we can do at present is to get as much information as possible on how to deal with the problem that will confront us when we have peace again. I do not think it is prudent to try to reach definite conclusions now with regard to most of those problems. A good bridge player never bids on his hand until he sees his cards. We are not going to see the cards until this war is over. So I repeat that, in my opinion, the obtaining of information is all we can do at present.

HON. MR. PATERSON: Mr. Chairman, I should like to make a suggestion by way of answering Senator Beaubien. Among all the pieces of literature that is sent to senators, I think one of the outstanding is a book called "The Common Problem." I believe the author of this book is present here to-day, and I want to take this opportunity to tell him how much I appreciate his book. The only complaint I have to make is that my copy is nearly worn out, from lending. It has been kept on the go ever since I read it, and I think it is in the hands of an employee of Imperial Oil at the present time. If the author is present here I believe he could answer Senator Beaubien.

THE CHAIRMAN: Mr. Yendall, we should be very pleased to have you speak to us.

MR. WILLIAM R. YENDALL, President and Treasurer, Richards-Wilcox Canadian Company, London, Ontario: Honourable senators, it is very kind of Senator Paterson to mention my effort to assist in the elucidation of some of these problems that bother us, and I am pleased to assure him that he will have two copies of my book as soon as I get home, so that he can keep on lending it. If he lets me know when these copies wear out, I shall send him some more. I think we all are interested in getting these ideas through to the people.

A specific question has been asked about the tariff. We have developed in this country a certain economy that has been based on reasonable protection.

of home market. I do not think it can be said that the Canadian tariff is a high tariff. It is one of the lowest tariffs in the world. I do not believe there would be any great advantage in seriously lowering the rates in that tariff, on a horizontal basis. There may be spots here and there where lowering the tariff would cause no particular difficulty, but it is not possible to build up industrialization in this country except by protecting the home market. And because we have done this is one reason why Canada has come forward with leaps and bounds and is now recognized all over the world as a strong nation. No nation is strong unless it is strong industrially; that is the basis of a high standard of living. Incidentally, it is not true that all Canadian manufacturers price their goods on the American price plus the duty. They may do it for a few years. I did it when I came to this country. When people asked the price, I said, "The American price plus duty." They said, "The same old story." I said, "Yes, I have to build an industry, and have to build it out of the tariff; but as soon as it gets on its feet it will be different," and it was not very long before the standard of our prices was practically the same as prices in the United States, regardless of duty.

We are not looking for tariffs to maintain high prices; we only want enough tariff to make sure that we have the home market to build on. Prices will always be reduced to increase volume, and that is what we are after. We are interested in getting low costs and reducing prices as fast as we can.

May I be pardoned if I make one or two other brief observations? I think this discussion may be, perhaps a little—I won't say timid—but perhaps it has not occurred to you gentlemen that we ought to assure the senators and the Government and the public at large that the business men of this country have a very keen sense of their responsibility for post-war reconstruction, and are prepared to go all out to produce full employment. Further, we are quite sure that we can accomplish that if we have reasonable co-operation from government. That does not mean inordinately high tariffs or pampering, or anything of that sort, but simply that government and business should work together on the most amicable and friendly terms, with all their cards on the table. We would deprecate a situation in which government boards, or bureaux, or theorists from outside, would sit down in a garret and plan out the future of Canada and ask us to fit into their plans. I do not think that is practical. Conditions change from month to month, and it would be most helpful to the national economy if there were such a feeling of confidence and mutual trust between the leaders of business and the Government that they would be in close consultation most of the time.

There are serious problems that will come before us at the close of the war. In a survey I have been making recently I find the hot spot is the present controls, and whether they should be continued, discontinued or modified. Business is not at all unanimous in asking their abandonment. We feel that there are a number which ought to be continued for a time at least, but we cannot say for how long, under what conditions, or in what detail. That, I consider, is one of the most important matters to be dealt with, and one in which government, employees and industry should work very closely together. A situation may arise in two weeks which will indicate the desirability of a shift. That is one feature of business that is different from governments. We like to make quick shifts; we like to make quick decisions. I have known decisions to be made in fifteen minutes, altering a company's policy for years. Then if you find you have made a mistake in your policy, you can change; but if you have to pass an Order in Council or a law, then you have to apply it, and there is a rigidity in the system which may be stifling and paralyzing; so if you can get away from that it is all to the good.

I think it will be of advantage to work quickly. Some controls should be continued and some should be discontinued. I am only pleading for a friendly

and helpful attitude of trust, not suspicion, between manufacturers and the Government. The employers now have a sense of responsibility they never had to the same degree before, and this is a most helpful thing.

I have been in business all my life, and have seen many changes. There has been a vast change in the last five or ten years. I used to feel that if I took care of my own and did a good job and maintained good relations, that was enough; that what the nation did or the Government did was none of my concern. That was a mistake. If we have a sense of the national interest, it ties us up together very positively, and if this idea of national interest can be spread across the country it will be most helpful and salutary.

I have great confidence in the post-war situation. I think there is no reason for apprehension for the years following the war. There is an enormous potential demand. My wife says, "I have to have a new rug for that room—and a new radio—and an electric stove." That is a general condition all over this country. Our household inventories are wearing out—the pillow-slips and the sheets, the dish pans and the rakes and lawn mowers—and along with that potential demand we have a producing power greater than ever before seen in this country or any other. People will have money. They have bought bonds, and they are saying to get the things they want after the war. These basic factors do not spell unemployment, they spell a boom, and our chief trouble, I believe, will be to head off inflation. For that reason I think we should be very much on our guard against what I call artificial plans for finding employment. If we go in for a reforestation scheme, and throw into it thousands of men, or if we have a housing boom or go into the wholesale erection of public buildings, the very moment it is over we will have the original problem right back again, of what we are going to do with these displaced men. Stabilization is what is needed. It is very good for the Government to have a plan of public works laid by; that is a grand balance wheel; but to throw in these programmes when they are not called for is simply to tangle up the whole situation. The thing which will employ every person in this country who is willing to work is the demand of the common people for the things they need, and if you let the money in their pockets find its own way, you will have all the employment you want in this country.

Hon. A. L. BEAUBIEN: I may say I have read the book, and I agree with much of what is contained in it, but the point I wanted to clear up is this: industry, in order to produce the war materials demanded from it to-day must have expended a great deal of capital, and I believe that the persons who put capital into industry should be recouped for over-expansion. What I want to find out is whether the manufacturing industry will be able to take care of that extra investment in increased capacity necessitated by the war after the war is over, or will they find themselves with a tremendous capital investment and be unable to recoup themselves?

Mr. YENDALL: We have to draw a line and put to one side the exclusive war industries, those that started up to produce war needs which had no existence in pre-war times. That is a problem by itself, but it is in large degree taken care of by the forms of contracts the Government has made for special materials, and to a considerable extent by accumulated depreciation. If a man had to build a factory and install machinery for the war, naturally that is part of the cost of the war, and it is quite legitimate and only fair that it should be included in the price of the goods. Aside from that, so far as the rank and file of manufacturers who were in business prior to the war are concerned, there is no great difficulty so far as I can find out, and I have sent out some questionnaires. They are not in difficulties. They have made extensions and have bought machinery, but the volume of business is so large that their overhead percentages have come down, and this has enabled them to carry that invest-

ment, to eliminate it or to charge it off. I have found but one business man who said to me that the shift from war to peace is going to cause him any difficulty. One of the questions I have been asking right along is: How long will it take to shift from war to peace, and will you need any consideration? The answer is practically unanimous "No. We are going out on our own."

Hon. Mr. BALLANTYNE: Probably I will be allowed to say a word. I was much interested in what my colleague had to say. We have not had a high tariff in this country for a great many years, and nobody wants one, not even the great industrialists sitting around this table. I have had far more experience in industry than I have had in connection with governments and parliaments, and the only manufacturer I have ever known of who has taken full advantage of the tariff has been my friend Mr. Yendall. Maybe he had a very good reason for what he did, but the average manufacturer does not take full advantage of the tariff. What he is interested in is making the best product that he can and increasing his volume of output; and as his output increases he will, if he is wise, as I think most manufacturers are, reduce his prices.

I am not active in business now, but I am still connected with many large corporations, and I know that from time to time prices are reduced and further reduced. Well, that is not a question of high tariff at all. It is in the interests of the manufacturer to make a fair profit, of course, but he must also see that his prices are not too high. I do not think anyone will seriously contend that prices throughout Canada in pre-war days were expressively high, or that they are excessively high even in this war period.

My friend Senator Beaubien has been inquiring about capital expenditures in war industries. A great many such industries have, of course, produced their own capital, but generally speaking the Government has provided it.

Unemployment will be the great problem facing this country after the war. In addition to the 500,000 soldiers who will come back, as we hope, there will be an equal number of employees let out of war industries; because while every manufacturer will reinstate his old or permanent employees, he cannot possibly be expected—nor could he do it, even if he were so disposed—to re-employ thousands and thousands of men who had been engaged only temporarily for the duration of the war. The most essential thing and one of the first things that will have to be considered by whatever Government is in power after the war, is reduction in taxes. No one is complaining about high taxation during the war, because we know it is necessary, but after the war the excess profits tax, the corporation tax and taxes in general throughout this country should be reduced. The manufacturer must have an incentive to expand his business. He does not want to put more capital into his business and enlarge his factory if he is not going to make a fair margin of profit. With the excess profits and corporation taxes as they are to-day, not a single manufacturer sitting around this board has any incentive to expand his business. Therefore, I do hope that whoever is charged with the great responsibility of government after the war will reduce taxation to a fair and moderate level. If that is done, the expansion of business in this country will be marvellous. I thoroughly agree with what my friend Mr. Yendall said about all the articles that will be wanted after the war. And I am fully convinced that the extraordinary ability shown by Canadian manufacturers in war production will be applied to expanding not only the home market, but the foreign market.

Another basic industry that will have to be given consideration and assistance by whatever Government is in power after the war, is agriculture. My friend Senator Beaubien is more familiar with farming conditions than I am. I know that housing is needed, and that housing projects, road building and reforestation will employ a lot of men; but, as my friend Mr. Yendall has stated, all these projects are of only a temporary nature. In my humble opinion, if we want to get Canada back to prosperity in a big way after the war, atten-

tion will have to be given to agriculture and manufacturing industries, and assistance rendered, not by way of a high tariff at all, but by reduction in taxes.

I did not intend to say anything at all this morning, but before I resume my seat I want to sound a personal note. I am very glad to meet here this morning so many members of the Canadian Manufacturers' Association. In my younger days I was very actively connected with the Association, and had the honour of being its President. I know its views, I know its sentiments, and I know that it can be depended upon to render every assistance to the Government in dealing with post-war problems.

Hon. A. L. BEAUBIEN: There is a suggestion that I should like to throw out to the manufacturers' representatives here, in all sincerity. An opinion prevails among the majority of agriculturists that, having no tariff protection of any kind, and being obliged to sell their products on the markets of the world in competition with the products of labour that has a lower standard of living than ours, the agricultural industry is at a disadvantage as compared with the manufacturing industry. It would do a great deal to bring harmony into the relations between these two great industries of Canada if the farmers could be convinced that the manufacturers are not taking advantage of the tariff in any way, shape or form.

The CHAIRMAN: It is almost one o'clock, gentlemen, and I would suggest that when we adjourn this meeting we decide to resume when the Senate rises this afternoon, which time I think we can fix now at 3.45. I think it would be a good plan for members of the committee to formulate in their minds between now and then some definite aspects of the post-war unemployment problem upon which they want enlightenment. We have here a pretty good cross-section of manufacturing, and I think we should try to focus our consideration on that one point of how far it will be possible to secure protection against unemployment after the war.

I should also like to mention a point that has just come into my mind. When Dr. James was before this committee, at its last sitting, he said that this fall a special industrial committee, under the auspices of the Reconstruction Committee, of which he is chairman, would have a definite report estimating the back-log of demands for consumer goods that each industry felt it would have to look forward to, and also an estimate of employment in each industry. I have no doubt that the Canadian Manufacturers' Association has been in touch with Dr. James and his subcommittee, of which I think Mr. J. S. McLean is chairman. I think that sooner or later there will be crystallized for our consideration something a little more definite along these lines than we have been able to get here to-day. I hope that during the luncheon interval members of the Committee will take this into consideration and try to have ready some questions for this afternoon.

At 1 p.m. the Committee adjourned until 3.45 p.m.

The Committee resumed at 3.45 p.m.

The CHAIRMAN: At the time of adjournment we were in the midst of discussing some points arising out of the brief submitted by the Canadian Manufacturers' Association, and by way of continuing along that line I am going to ask Mr. Lane to elaborate a point or two which was brought up. I think he would like to emphasize particularly the financial aspect of the situation in which the manufacturers will find themselves at the end of the war.

Mr. LANE: Mr. Chairman, honourable gentlemen, during the course of discussion this morning reference was made to the impairment of capital of manufacturers. I propose to address a few remarks to you on that point. I think it may be assumed—and you have my assurance that it is so—that all manufacturers desire to maximize their production, which in turn means maximized employment. But I put it to you that no matter how much they desire to achieve that end, they will be retarded to the extent that they are obliged to enter the post-war period with impaired capital. It is my suggestion that care should be exercised to see that manufacturers are not obliged to enter the post-war period with capital impaired due to conditions entirely beyond their control.

That brings me to the question of taxation. I am not questioning the reasons of taxation—that rates are high, we admit and I do not believe any manufacturer in Canada has voiced any objection to the present rates.

Hon. Mr. BALLANTYNE: Hear, hear.

Mr. LANE: They are due to the war conditions under which we are now living. But I do submit that when the rates of taxation reach the level they have now attained every care should be taken to see that sound principles of taxation are employed throughout. The point I come to is that by reason of our present rates of excess profits tax and income tax no manufacturer is permitted to accumulate profits in excess of 70 per cent of his average earnings in the three or four pre-war years, which are his standard earnings. Now, if that is the maximum of his earnings, with the limitation of profits there is little latitude left to build up undistributed earned income which might be employed as reserves for contingencies. In sound business practice all manufacturers set aside a fund to make provision for depreciation of substantial assets. The rate of setting aside is limited by income tax measures. In the ordinary course of business you make provision for bad debts. In other words, you have provision for the depreciation or depletion that you can readily foresee. It has not been customary to set up what we call reserves for loss of inventory value. In our present Excess Profits Tax Act there is a section which permits provision for depletion of inventory value; but I put it to you that, in the first place, that provision does not apply to anyone who is not in the 100 per cent tax bracket, and it is my submission that if the loss is there, it is more grievous to the man who does not reach the 100 per cent tax bracket than it is to the man who does.

Again, the conditions surrounding and restricting the application of inventory reserves are such that in a vast number of cases the right to set up inventory reserves does not apply. Now, the mere fact that the Government introduced a provision for inventory reserve in the United States profits tax act is, I submit, an admission that a hazard exists that should be provided for, and should only be provided for when the taxes reach the high levels they have now attained.

A further point in support of this is the amendment of last year, I think, to the Income Tax Act and the Excess Profits Tax Act, to the effect that all loss may be carried forward to the succeeding year and be deducted from that year's income, subject to tax. That again, I suggest, is an admission of principle. The point I come to is that we are not meeting the principle at issue. I will hazard the statement—I will qualify it by saying certainly not to my knowledge—that neither the Income Tax Act nor the Excess Profits Tax Act in the United Kingdom or in any other part of the British Empire, or in the United States, contains provision for inventory losses. If you go to the British Act you will find that they provide for assessing taxes upon the average income over a period of two or three years, and that if the current year's income is less than the average of the current year plus the two pre-

ceding years you are entitled to a refund of taxation. I submit, Mr. Chairman, that that is a sound principle, in that it meets the requirements for inventory reserve by reason of the fact that—I will take for instance the current year—we use the inventory brought forward and any loss is reflected in reduced profits for the current year. That reduced profit, averaged with the income of the two preceding years, throws the loss back against earnings upon which higher taxes were paid—a provision for losses which are incurred when you subsequently sell your merchandise.

I submit that every manufacturer in Canada will be carrying forward at the close of this year inventories of goods against which he has no inventory reserve. If there is a substantial decline in values, that must result in a loss to the manufacturer holding those goods.

Hon. Mr. BALLANTYNE: That is what happened to the manufacturers after the last war.

Mr. LANE: Precisely, Mr. Chairman. In addition to declines in values, manufacturers to-day are using materials which are substitutes for the materials they would normally employ. It is inevitable that they will incur some losses, and it is my submission that consideration should be given to modifying the application of our income tax and excess profits tax to embrace the same principles as those employed in Great Britain, where they have had a much longer experience than we have had in the field of taxation; and, I suggest that by so doing it would be entirely unnecessary to maintain our present inventory reserves, because they in turn will be automatically taken care of.

There is just one other point I might touch on. We in Canada, by reason of our very high rates of taxation, as I mentioned before, are not able to accumulate undistributed profits in order to take care of hazards we may encounter in the post-war period. I do not believe that the same high rates of taxation apply, for example, in the United States. If that is so, the manufacturers in the United States are placed in a much more advantageous position than we are in, in that they can accumulate profits to meet these losses in the post-war period. My whole plea is that manufacturers should not through circumstances beyond their control—that is the application of our present income tax and excess profits tax—be obliged to enter the post-war period with impaired capital.

The CHAIRMAN: That is a very interesting point on the depreciation allowances for inventories after the war. There is one reference that I should like Mr. Lane to develop. Possibly it may not bear exactly on what he was saying, but we have had the Depreciation Board here under Mr. Justice McTague, which has allowed a certain depreciation on war plant where it has been, I think in most cases, expressly requested by the Government. There have been references made by others who have spoken before this committee to the effect that that allowance for depreciation will be of advantage to the manufacturer after the war is over, because those who have been engaged in a large measure of war industry will at least be relieved of the burden of a plant that is not going to be operated immediately when the war ends but which may have some prospects of activity later on. How far can you relate that phase of depreciation to the thought you were expressing?

Mr. LANE: Mr. Chairman, I am rather reluctant to deal with depreciation of fixed assets without some specific cases. If a manufacturer has been called upon to invest capital, specifically for war purposes, in buildings or machinery, and if he has been granted rates of depreciation that are sufficient to amortize the total value of his investment before the war ends and while his contracts exist, he stands to incur no loss. If there is a realizable value to those assets, provided they are his property, they may be of some gain to him. On the other hand, a vast number of manufacturers in Canada are employing their own equip-

ment, which has not been specifically subsidized and against which no special rates of depreciation have been allowed; and machinery, which is being subjected to an abnormal stress of wear and tear.

A manufacturer is unable to maintain his equipment in the degree of repair and efficiency that he normally would in peacetime. If he operates three shifts a day he is entitled to depreciation at twenty per cent per annum. His normal rate of depreciation would be ten per cent, on machinery. On buildings there are different rates. I put it to you, Mr. Chairman, that the loss or gain to the manufacturer depends entirely upon the length of the war. If the war lasts for a period of five years from the time that he was first allowed to write off the accelerated rates of depreciation, based on three shifts, he will have an opportunity to amortize the whole of his capital in that time. But to the manufacturer who bought machinery last year or who is buying it this year, there is no assurance that the war is going to last five years from the date of his investment of capital in that equipment. At the normal rates of depreciation allowed for income tax purposes, I would doubt very much if any manufacturer to-day is going to make any gain out of this. On the contrary, I should think the majority of manufacturers will take some loss.

The manufacturers' position where special rates of depreciation are allowed depends entirely on what the special rates are, and, again, the duration of the war. Your special rates, I take it, are something in addition to the normal rates of twenty per cent on machinery running three shifts a day. If you get an additional thirteen and one-half per cent, say, it would give you an aggregate of thirty three and one-third per cent, so you could amortize your investment over three years without taking any loss.

In the final analysis, Mr. Chairman, I think you would have to get down to specific cases. And even with specific cases you would have to determine the period of time over which depreciation could be charged against the contract price.

Hon. A. L. BEAUBIEN: If the depreciation on equipment used in three shifts a day is twenty per cent—

Mr. LANE: That is allowed by the Income Tax branch. On machinery and fixtures the normal rate of depreciation is ten per cent. If you run two shifts a day, the rate is fifteen per cent; if you run three shifts a day, you are allowed twenty per cent.

Hon. Mr. MURDOCK: May I ask a question? Is this Mr. Lane from Kitchener?

The CHAIRMAN: No; from Montreal.

Hon. A. L. BEAUBIEN: Suppose a manufacturer buys machinery now, and the war lasts three years longer. If he uses the machinery in three shifts a day, and gets depreciation of twenty per cent a year, then at the end of the war the salvage value of that machinery would give him quite a gain, would it not? I do not know whether it would or not; I am just asking for information.

Mr. LANE: If anyone could tell us what the salvage value of machinery will be after the war, sir, we could answer your question. After receiving a twenty per cent allowance for three years, the manufacturer would still have forty per cent tied up in the machinery. I can tell you of machinery that was bought in the last war and was never taken out of the packing cases, and it was sold for its scrap value.

Hon. A. L. BEAUBIEN: Of course, we are running this war better.

Mr. LANE: Unquestionably there will be a vast amount of some kinds of equipment for which there will be no use whatever after the war, and this will have only scrap value.

Hon. A. L. BEAUBIEN: I am simply asking for information.

Hon. Mr. HUGESSEN: Mr. Lane, I take it that you were addressing yourself more particularly to statement No. 3 on page 7 of this very able memorandum that you submitted, which statement deals with the possibility of a shortage of working capital in certain industries after the war, as a result of high taxation.

Mr. LANE: That was the point I was speaking to.

Hon. Mr. HUGESSEN: I was interested in it, because Mr. Yendall said the very opposite. He said he did not think any manufacturers would experience a shortage of capital after the war.

Mr. LANE: Mr. Yendall can of course speak for himself, but I would doubt that we are at cross purposes.

Hon. Mr. HUGESSEN: The provision for accelerated depreciation on equipment which manufacturers use in specifically war plants will, if the war lasts long enough, result in the manufacturers getting their money back; they will not lose it, as they did after the last war. In the last war there was no provision for anything like the accelerated depreciation that is allowed now?

The CHAIRMAN: There was not the expansion, either.

Mr. LANE: On the other hand, there certainly were no rates of income tax during the last war such as we have in effect to-day. And if they were not allowed the higher rates of depreciation, the net result was just as good, because what you do not set up in your depreciation reserve you carry in as undistributed surplus. If you build up your undistributed surplus sufficiently to meet all possible hazards, that is just as effective as transferring your undistributed surplus into a specific reserve.

Mr. E. C. BURTON, Vice-President and Manager, Link-Belt Limited, Toronto: Mr. Chairman, there is one thing I want to add to what Mr. Lane has said. We must not overlook the fact that even if, through special depreciation allowances, a manufacturer has at the end of the war a building that cost him nothing, the maintenance of that building in post-war years will run into a lot of expense, which obviously is not taken care of by war contract depreciation. So the hazard in connection with expenditures under an arrangement with war contract depreciation is not completely wiped out, even if you guess right as to the length of the war. We made an arrangement with regard to war contract depreciation in 1941, and we came out all right that year, and in 1942; and maybe we are going to come out all right in 1943. But we did not know what was going to happen, and if the war had ended sooner we would of course have been caught, because we would not have been able to write that depreciation out of our profits for 1942 or 1943. The point I want to make is that if the buildings are there after the war, there will be considerable expense to be borne by the manufacturer, even if the depreciation that has been allowed is to the full value of the buildings.

Hon. A. L. BEAUBIEN: Do you not take that into consideration when you tender a contract for war purposes?

Mr. BURTON: You cannot. Even if you get the building free, if you get one hundred per cent depreciation allowance, you still have municipal taxes and other expenses, which are not small.

Mr. LANE: I think I may say, as an addition to Mr. Burton's remarks, that negative assets become liabilities; the carrying charges on them become a total loss to the owner.

Mr. YENDALL: Mr. Chairman, may I be permitted to make a further statement? This morning I was speaking about one point in particular, to show the attitude of business men towards post-war reconstruction. In a questionnaire that we sent out to some sixty employers in London, one question was whether

they apprehended any great difficulty with regard to their financial situation at the end of the war, and whether they thought they would be able to get along without any special assistance. They all showed a good deal of spirit in connection with the matter, saying they thought they could get along all right and did not expect to be financially embarrassed. But further down in the questionnaire they were asked if they would be able to accumulate, under the present arrangement, sufficient working capital for the post-war period, and they were unanimous in saying, "No, but we expect the arrangement will be changed." So their optimistic outlook is partly due to the fact that they are expecting some relief will be accorded in that direction. Their answers established their optimism and their confidence in the good faith of the Government.

The CHAIRMAN: I think that clears up that point. Is it fair to assume that what might be called the established manufacturing industries, those that were established before the war started and which might be regarded as the main factors in re-employment after the war, have had their reserves depleted to any extent below their pre-war levels?

Mr. LANE: I think the answer to that is, that unless you can establish that a corporation is carrying a substantial amount of excess cash in the bank or in Government bonds, any surplus it has on its books has been plowed back into the business and is in effect capital employed in the operation of the business. Another point that I might make on the same subject is that cash balances which appear on a company's annual balance sheet are not necessarily indicative of the amount of surplus cash the company has in its business, because business fluctuates and a company's cash will fluctuate throughout the year. You will find that some companies have apparently a very strong cash position at one period of the year, and at other periods they are borrowing money. But in the pre-war period, Mr. Chairman, it was not customary for companies to accumulate vast surpluses that were not re-employed by way of expansion of their business. If you were in the position of having a vast cash surplus, probably that should have been distributed by way of dividends to your shareholders.

Hon. Mr. PATERSON: Would it be fair to ask this Association if they have investigated the effect of immigration, and if they have recommended it? I do not recall whether that was mentioned in their brief.

Mr. LANE: I would say, sir, that we have the subject under consideration, but have not yet determined our policy towards it.

Hon. Mr. DUFFUS: Mr. Chairman, I have a question that may be a little difficult to answer at present. What percentage of manufacturers have put up entirely new buildings, and what percentage are carrying on in their old buildings, or partly in old buildings and partly in new ones? What I am getting at is this. Year by year the manufacturers are writing off their investments in their old buildings, and perhaps by the time the war is over many companies will be able to scrap their old buildings, and reduce taxation by so doing, and then carry on in their new buildings.

Mr. LANE: Personally, Mr. Chairman, I am not aware of any figures that would provide the answer to that question. I do not know just how that could be determined.

Hon. Mr. DUFFUS: It is reasonable to expect that a number of manufacturers will scrap old buildings that are entirely written off and perhaps obsolete, and will carry on in new buildings.

Mr. LANE: Of course, that is based on the assumption that the manufacturers are able to construct new buildings at the expense of the Government, or under the cost of their contract, that they are permitted to scrap the capital with which they originally entered into the contract. From what little experience I have had with the contracts branch of the Department of Munitions and Supply, I would doubt that they could get by with that.

The CHAIRMAN: I think it would be interesting if Mr. Stirrett, General Manager of the Canadian Manufacturers' Association, would give us an outline of the Association's activities among its members in studying and planning how to deal with some of these problems of the post-war period. I do not want to change the course of the discussion, but it occurred to me that it would be useful for us to know what the manufacturing industry, through its organization, is trying to do. If he wouldn't mind—I don't want to call on him—I am sure we would like to hear what he has to say. Mr. Stirrett is the general manager of the Canadian Manufacturers' Association.

MR. J. T. STIRRETT (General Manager, Canadian Manufacturers' Association): Mr. Chairman and honourable members of the committee, the Canadian Manufacturers' Association, not only from a patriotic point of view but also in the interests of its members, has given attention to this whole problem of post-war construction from a very early date in the war. Discussions on what was likely to happen after the war—I am just reading from a circular sent out to our members a while ago—discussions on what was likely to happen after the war began to arise in the association's standing committees early in 1940. For example, transportation will present some very special problems during the balance of the war, and after the war, and these are being considered by the Transportation Committee, of which about one-third of the members are traffic experts. Customs, tariffs, Empire preference, import and export restrictions, and so on, will be an important factor, and this subject is on the agenda of the Association's Tariff Committee. The Commercial Intelligence Committee has made a special study of priority regulations and other factors relating to the securing of materials. Also, this committee continues to study possibilities of maintaining and increasing Canada's exports and the effect of lease-lend and other factors on our foreign trade. The Legislation Committee is dealing particularly with the matter of taxes, and the Industrial Relations Committee deals with labour and immigration questions. The membership of the Legislation Committee includes ten lawyers, while there are twenty personnel men on the Industrial Relations Committee. These committees report progress from time to time to the Executive Committee and the Executive Council.

There was a two day session on the subject of post-war reconstruction at the annual general meeting of the Association in June, 1942. That session was under the chairmanship of Mr. J. S. McLean, President of Canada Packers, Limited, and employers' representative on the Dominion Government Committee on Reconstruction. There were present at that meeting Dr. F. Cyril James, Principal and Vice-Chancellor of McGill University, and Chairman of the Committee on Reconstruction, and Brigadier General H. F. McDonald, Chairman of the Advisory Committee on Demobilization and Rehabilitation. There were also present many other representatives of the Government and other organizations, private as well as public, who are interested in this important question.

A verbatim report of this conference was published in the Association's magazine, and some thousands of copies were struck off in this form and widely distributed to other organizations and to the Press.

The Association has been, and is in communication with forty-seven other Canadian organizations, and has asked them for an exchange of views and material.

At a meeting in Hamilton on January 29, 1943, the Executive Council authorized the setting up of a Co-ordinating Committee on Reconstruction, to include the chairman of the standing committees—who have been working on this in detail according to subjects for the past three years—and such other members as the Co-ordinating Committee might wish to add.

I thought it might be of interest to you to know how this submission, which was put in officially, was prepared. For some years the Association has been in touch with these other organizations in Canada, and with some of the

chief organizations, industrial, commercial and financial, in Great Britain and the United States, and we extracted from their reports and recommendations—and I propose to put first the deliberations of the British Parliament, the Congress of the United States, and the Parliament of our own country—the most important points that were coming up again and again in these discussions, and which illustrated how people's minds were running. We took those points and summarized the views expressed, and tried to accumulate them all to see whether they agreed or disagreed, and then took those with the views emerging from our own committee meetings in different parts of the country and representing various industries and arising out of our correspondence and questions to members. We then set down these points in an endeavour to get some practical answers.

It is natural, of course, that a great deal of the discussion must be general, owing to the number of factors which are unknown; and many of the discussions represented, as you might say, aspirations and wishes as well as practical methods of accomplishment.

We took these points, with the chief reasons for and against them, and in preparation for this hearing, Mr. Chairman and gentlemen, we sent the result to something over one hundred of what we call key industry representatives throughout Canada, so that we would be able to get a reflection of what our members thought about these specific points; and their views are really transmitted to you in this memorandum submitted by Mr. Lane this morning, in addition to other information of a general character which is also contained in it.

During the past three years, our President, Mr. Lang, our Vice-President, Mr. Crabtree, and other officers and members of the council and the standing committees to which I have referred, have with the time at their disposal placed this subject of post-war reconstruction in a very important place in their thoughts and deliberation. I can assure you on behalf of those I have just mentioned that it is their intention to continue that policy and to keep this subject steadily before the members. It is also the intention to continue to co-operate in every possible way with the Dominion Government. I should like to say also, and this is important, it is our desire to continue to co-operate with you, sir, and the members of this committee in studying these problems, and to help in every possible way.

The CHAIRMAN: Thank you very much, Mr. Stirrett.

I think it will be necessary later on, as we proceed with the development of this subject, to ask certain groups of industry to be represented before us again, so I should be glad to take this opportunity of accepting the offer that has been made generally in regard to this subject.

There is one phase of this problem that has not been touched upon to any extent to-day which represents a most important factor in post-war development, and without desiring to prolong our sittings unduly or to strike any controversial note, I am wondering if anyone would care to discuss the question of relations with organized labour as a factor in post-war development. It is our plan to have organized labour represented before this committee in the near future before we conclude our hearing, and I think we should be guided in this committee, in connection with the very important subject of the relation of industry to organized labour, by those who are most intimately in contact with the problem. I may say that our thought in connection with this subject has been affected somewhat by the announcement made a few days ago by Mr. Justice McTague that he and his associates on the Labour Board would hold an open inquiry into this subject in this city in the near future. It may be that the manufacturers are considering the preparation of a case for that

body and would not be in a position to-day to state what they would like to say. I do not know. At any rate, that is a phase of the question which should be discussed.

Is there any reaction to that suggestion at all?

Mr. LANE: Mr. Chairman and gentlemen, as you indicated, we are going before Mr. Justice McTague to-morrow. In reply to your question I think I may state without contradiction that it is certainly the desire and the wish of the manufacturers to maintain pleasant relations with their employees at all times. As to the means by which that is to be attained, presumably there will be some development in the near future. We assumed in the first instance that you would be hearing organized labour, and we certainly hope that it is their desire to co-operate with industry as much as it is the desire of industry to co-operate with labour. I doubt if I can say much more at this time.

The CHAIRMAN: We may be able to have discussion on this particular aspect of the subject later.

Hon. Mr. LACASSE: Mr. Chairman, we seldom have the opportunity of meeting such a representative body of manufacturers, and I for one should be interested in getting an explanation of a condition which seems to me most abnormal. I should like to know from these gentlemen upon what principle the scale of wages is generally based. We know that labour problems are the reason for strikes that occur here and there; there is always one in the offing. I do not say that labour problems justify strikes; I am not prepared to blame either side, because I do not claim to have enough information to judge intelligently and justly. To make my point clear, I will ask whether the scale of wages is based principally on the cost of living in one district or another. The matter was taken up on the floor of the House, particularly with reference to the situation in the province of Quebec. I live in Ontario, and I know that fairly high wages are being paid just now in the Windsor district. My information is—I cannot say whether it is correct—that much lower wages are paid in Quebec. That has been a bone of contention for quite a number of years, and I should like to ask these gentlemen, who know more about these things than I do or than anyone who is not a manufacturer does why such conditions should exist.

Hon. Mr. COPP: If they do.

The CHAIRMAN: I think Mr. Lane would probably answer that question by saying that the whole wage question is of course a matter of government policy to-day, under the War Labour Board.

Hon. Mr. LACASSE: Well, it is not quite as uniform as it should be.

Mr. LANE: Mr. Chairman, you have given the only answer that I could give. As we understand it, the whole question of wage scales and wage rates is within the field of the National War Labour Board, and I doubt very much if any of us would care to make a statement which could be construed as encroaching upon the Board's prerogatives or territory. Wages rates and the cost of living bonus have been fixed by order.

Hon. Mr. LACASSE: Rightly or wrongly, the C.I.O. is always triumphant in Windsor and all over Western Ontario. In three years they have lost but one fight in that district so far as I know. Chrysler had to yield; Ford was badly beaten at the polls, and so were all the rest of them, in spite of government interference. So far as the present laws and regulations are concerned, I do not see any solution of the problem. I say that in no spirit of criticism at all; I am merely seeking information from people who are supposed to know about this matter. The question that arises in my mind is why a Quebec man should be paid seventy cents an hour and a man in Windsor \$1.25 or \$1.50. That does not make sense to me.

The CHAIRMAN: Mr. Mitchell could probably tell you.

Hon. Mr. LACASSE: I am not holding a brief for anyone.

Hon. Mr. BALLANTYNE: I should like to ask Senator Lacasse whether his remarks relate to skilled or unskilled labour. If he refers to skilled labour, I think he will find that the wages are just as high in the province of Quebec as any other province.

The CHAIRMAN: Are there any further questions? It has been suggested to me that Mr. Simms, of Saint John, might wish to say something.

Mr. L. W. SIMMS, President, T. S. Simms & Co., Limited, Saint John, New Brunswick: Mr. Chairman, Honourable Gentlemen, if I have anything at all to add to the discussion, it is along a somewhat more general line than what we have had here to-day. I have listened to the discussion with a good deal of interest and profit, but it seems to me there are certain fundamental attitudes or conceptions that it is very important for us to keep in mind to-day, if we are going to get anywhere in facing this post-war problem. I have been impressed by the multitude of committees and other bodies, both governmental and lay, that are wrestling with this problem. To me it is both encouraging and a danger. But if we do not correlate or co-ordinate these, before very long we shall be crystallizing a lot of ideas that it will be difficult to piece together. Various bodies must co-operate. That word "co-operate" used to have a hyphen in it; but the hyphen has been dropped, because it was discovered that you cannot co over here and operate over there. In a multitude of counsels there may be wisdom, but without co-ordination there can also be great confusion.

I notice that one thing which is most frequently dealt with by all these bodies is the problem of universal employment. There is a growing realization that, whether we like it or not, we are moving towards a more universal economy, in this nation, in the United States, Great Britain and other countries. So we are at the very centre of the post-war problem when we are considering it from the standpoint of those who are captains of industry, if you want to call them that. My father happened to be a veteran of the Civil War in the United States, and I think he taught me more than I learned from any other source how to love the British Empire and appreciate that freedom which he considered was greater within her territories than in the nation to the south of us. Of course, the issue came to be at that time the freedom of individual human lives, but to me the issue to-day is the still bigger one of the freedom of individual livelihoods; for without the latter, the former does not mean anything. I feel that we shall get further by trying to relate everything to that one consideration, than if we allow ourselves to multiply counsel and get half a dozen perhaps more or less related but not too well related issues into the picture.

I have a young grandson who is just in the initial stage of learning to talk, and I was much interested to observe that the first two words he learned to put together were, "That's mine." The fact that he has two older brothers may have had something to do with his need for uttering those words; but I also noticed that, small as he was, the words were not based on any legitimate claim to the thing he wanted, but were inspired by possessiveness. Whether the thing was his or not, he claimed it. Well, as we develop we realize that we have no individual ownership of some of the great things in this country. We own in common many things, of which a man can speak with pride and say, not "That is mine," but "That is ours." We must, I think, have a growing appreciation that that applies to Canada. It is our Canada—the Canada of our agriculturists, of our industrialists, of our miners, of our fishers and of all our citizens—and we all have a common responsibility to make sure of the welfare of every part of the country.

I was interested in the remarks made this morning on behalf of agriculture by Senator Beaubien. Last night, I happened to be sitting at the dinner table with John A. McDonald, Minister of Agriculture for Nova Scotia, and as two

Maritimers we of course found common ground very quickly. We got talking about the Tantramar marshes and other marsh lands in New Brunswick and Nova Scotia, wondering whether they could be dyked again and the rich soil recultivated for the growing of feed for livestock, as was done very profitably many years ago. We have no trouble in feeding our cattle down there in the summer, but it is a very difficult thing to do in the winter. Senator Beaubien said that the agriculturists are not given protection. Well, we in the Maritimes are paying for protection on wheat from the West, to the extent of twenty-five cents a bushel for transportation, and we think that perhaps there ought to be a quid pro quo in the form of some feed sent to us from the West to help winter our cattle. I only mention that to show that some of these matters are not quite as simple as they sometimes appear.

Hon. Mr. BEAUBIEN: Mr. Chairman, I think Mr. Simms misunderstood me. All I was trying to do was to find out what would be the position, after the war, of industrialists who have been expanding tremendously, whether they would need a higher tariff in order to keep going. I was not criticizing at all.

Mr. SIMMS: The last thought in my mind is to get into any controversy. My point is that agriculture concerns us all. It is our agriculture, from British Columbia to Sydney.

One of the things that I am concerned about is our heritage. It is a startling fact that in all history, modern and ancient, the only people who over a long period of time have made a contribution of enduring service that has elevated and ennobled humanity are the peoples of the Anglo-Saxon race and those who have become partners of that race.

Hon. Mr. BALLANTYNE: Hear, hear.

Mr. SIMMS: That is not too much to say. And that contribution has resulted from a God-fearing sense of stewardship and our love of freedom. The word "democracy" does not make anything as strong an appeal to me as does "freedom." Democracy is something academic and impersonal, but freedom enters into every fibre of our relationship with one another. There is a tolerance and a trust about it, for we want freedom not only for ourselves, but for the other fellow. We do not police him or compel him or regiment him; we say in effect, each of us to the other, "You in your field will be just as faithful in your stewardship as I am in mine."

Now, I have been concerned with what I have seen running through our fabric to-day—I would not be a bit concerned if I saw it in Germany, Austria, Italy or Japan—and that is the assumption, both by political groups and laymen, that if we are going to get anywhere in the future it must be by regimenting the other fellow and compelling him to do certain things. But it doesn't work. I know, for I have tried it at home, and it has not worked very often; and I know it does not work in my own industry. As soon as I try compulsion I am unhappy and depressed, and any fellow who walks in my door knows it and we don't get anywhere. But when I am fair, anybody who comes in knows that I am anxious about his welfare first, and I know that my own will look after itself. The question is have we really got that conviction?

The question of labour has been mentioned. Many people in thinking about the labour picture in Canada only think of unions and labour leaders, and forget that there are thousands of small industries in which labour has never been a problem. This is not because labour unions are shut out, but because these little manufacturers and their employees have learned to consider one another, like one another, and to know the joy of co-operating. They have learned that there is an identity of interest within the industry. I think that is part of the picture that should be kept in mind. There is a very good illustration of what I mean in the old story about Pat and Bridget, who had frequent differences of opinion. On one of these occasions Bridget said, "Look at the cat and dog there lying on

the floor together in perfect agreement," and Pat said, "You tie their tails together over a line and you will see how they will get along." There are too many people who are wanting to tie our tails together over a line.

I think we are all clearer to-day than ever before that the more people who are actively working together, from Nova Scotia to British Columbia, to produce the things we want, the more real sympathy there is going to be in Canada and the better our livelihood is going to be protected. But there are threats that may hurt industry. There can be the threat of the State, which in war-time comes before the individual problem. There is the threat of bureaucracy, which can be stultifying. There is the threat of arbitrary management. I know of times right in my own industry when I was breeding dissension and fear. Then there are the arbitrary labour leaders, who can take exactly the same attitude and get the same result so far as deteriorating our welfare throughout Canada is concerned. Then there is destructive competition. It would be very interesting if you could see the inside picture of what has happened manufacturers in learning how to co-operate constructively. There are a lot of British associations which have learned how to avoid competition. They do this, first, by not hating each other too much, and second, by not hugging each other too much. Then there is destruction from a fear of extending credit when a very little more credit would have tided somebody over. There is the threat of manipulation, the effort to combine things, not on the basis of efficiency but from the viewpoint of what can be made in the rake-off. These are all our concern, they are the things we have to think of and deal with. In other words, livelihoods of any kind are not to be traded upon or exploited either by arbitrary management, arbitrary labour leaders, or an arbitrary state.

Mr. Yendall referred to the fact that he had been asking questions. I have been asking one persistently for three or four years. I have asked: "What do you value most? Do you value your position or the well-being and livelihood of your men?" I have yet to get an answer other than this: "If we do not value the livelihood of our men there is nothing left," and I think the principal concern of the vast majority of industrial leaders is how they can get along in collaboration with their employees.

I was very much impressed with one sentence in the Queen's address. She defined work as doing something which helped others. The thing which has made her and the King such a tremendous asset to this Empire is their ability to get down to the essence of simplicity. I think the essence of our relations should be that essence of simplicity. If we can bring the other fellow into a circle in which we can all co-operate, we will find a way of getting back to the old freedom in Canada—the true heritage of learning to work together.

The CHAIRMAN: Thank you very much, Mr. Simms.

Now is there anyone else who would like to add to the discussion?

Hon. Mr. A. L. BEAUBIEN: Mr. Chairman, may I ask just one question? You may think I am asking too many.

The CHAIRMAN: As the only agriculturist in the room, I think you are entitled to one question.

Hon. Mr. A. L. BEAUBIEN: May I ask the Manufacturers' Association whether they have ever given thought to the spreading of industry throughout the different parts of Canada, instead of centralizing most of it in the two provinces of Quebec and Ontario? The reason I ask this question is that I believe if we could get more industries in different parts of Canada we would have a much more balanced economy, something which I think is very essential. Since the war there has been a tendency to centralize industry in the two provinces I have referred to.

Mr. LANE: I would suggest that Major Anthes answer that question.

Major ANTHES: Mr. Chairman and honourable gentlemen, the question of diversified industry is one which I have studied carefully for many years, and I have conducted my own business along such lines. Before this meeting I was discussing with Senator Beaubien one of our biggest plants, the first we had in Winnipeg, where we have been operating since 1913. A lot of people scoffed at me because they thought we could not develop out there, but we have showed them that we can. Many of our largest organizations are in the west, such as the Dominion Bridge and the Vulcan Iron Works. Many of you would be surprised if you could talk with Mr. Carpenter, the western secretary of the Canadian Association—he is at the Chateau—and have him tell you how industry in the west has developed. Furthermore, we have a foundry on the Pacific coast. I am also interested in the cordite industry and the development of flax, and I have discussed with well known men in the west the possibility of developing industries there which could be based on products grown in the west. Actually, as a result of the war, there is going to be a far greater development in that country.

It may surprise you to know that I gave an address in Regina in 1934 on hog raising. That sounds very far removed from manufacturers, but it is a basis of industry. I do not think there is any manufacturer I know of who is not beginning to realize the value of diversified industry. The great misfortune is that the population in the prairie provinces has not been great enough to sustain industry on a large scale. However, I wish you could get a statement from Mr. Carpenter, for he would open your eyes as to how industry can be and is being developed on the prairies. There is another point on which Senator Beaubien and I are not very far apart. I remember an address that he made in Winnipeg six years ago, in which he said that it is not consistent that one-fifth of the territory of the world should be occupied by only twelve million people. However, that is a situation which is going to change as a result of this war.

Hon. A. L. BEAUBIEN: If you take the census of 1941 you will find that the provinces of Saskatchewan and Manitoba have lost a great deal of their population. The reason for that, apart from enlistments in the army, is that many of our people have come to eastern Canada to work in industry. If you go into Winnipeg to-day, when the industrial activity of Canada is at the highest point it has ever reached, you will find around three thousand people unemployed and looking for jobs, and industry in the east is calling for man-power.

Hon. Mr. BALLANTYNE: You have some very large war establishments.

Hon. Mr. BEAUBIEN: Not very many. There is the cordite plant, but it is laying off a good many men because of the change in the need for explosives.

Hon. Mr. HOWARD: Mr. Chairman, I am not going to continue the discussion. I just wish to say that I was asked by one of our leading manufacturers in Sherbrooke, Mr. A. A. Munster, of the silk industry, who is in New York, to present his excuses for not being here and to tell you that if he can be of assistance at any time he would be glad to come. Mr. Blair Gordon is here.

While I am on my feet, may I say just a word to Senator Beaubien? It is generally believed that the centre of industry in Quebec is in Montreal. It might be interesting to the committee to know that in the matter of the number of employees in industry, the Eastern Townships are second only to Montreal in the whole province of Quebec, and second also in the value of goods produced.

The CHAIRMAN: If there is nothing more, we will adjourn.

Mr. LANE: Mr. Chairman, may I take this opportunity, on behalf of the manufacturers, to thank you and the honourable members of the committee

for the privilege of attending this conference, and to remind you that we shall be happy to co-operate with you at all times and to make available such information as is at our disposal and of interest to you.

Hon. Mr. FOSTER: Mr. Chairman, before the meeting adjourns I should like to ask a question of Mr. Anthes, who mentioned that he had established an industry in Western Canada in 1913. Would you kindly tell me, Mr. Anthes, what you consider are the main factors entering into the establishment of an industry, whether in Western Canada, Quebec, or any other part of the country? I know that different industries will have different requirements, but I should like to have a general answer.

Mr. ANTHERS: Well, generally, there are three or four outstanding factors. One is the ability to obtain raw materials; another is the ability to get skilled labour necessary for the fabrication of those materials; then there should be a sufficient population to cater to; and there should be adequate transportation. Before establishing an industry on the prairies, let us say, you should be sure that you can obtain your raw materials regularly, that your supply of labour will always be sufficient and that your transportation problems can be taken care of.

Hon. Mr. FOSTER: Is power an important factor?

Mr. ANTHERS: Oh, yes, power is always important. That, of course, is something that we do not need to worry about in the province of Manitoba, nor in Alberta; and British Columbia is wonderfully blessed with power; but you have to give more consideration to this question in Saskatchewan. There are not large populations in those areas, though.

As has been pointed out by Mr. Yendall, Mr. Lane and others, manufacturers are intensely interested in the development of Canada, in the principle of one for all and all for one, because I think this war has driven home the realization that Canada will only go ahead when there is concerted effort on the part of our people and fair treatment for all. Let us put every bit of our strength into the development of this country; for, as Mr. Simms said, we have a wonderful heritage here. I do not want to go into polemics, but it is a fact that we have a wonderful heritage. We have not enough people as yet to develop the country as it should be. I think the committee can rest assured that the Canadian Manufacturers' Association, while concerned with manufacturing problems, does look at the general problems of Canada in a large way, for we realize that one group cannot live to itself.

The CHAIRMAN: I know I am expressing the feelings of all members of the Committee when I say to Mr. Lane that we are very grateful to him for the kind references he has made to the Committee, and that we greatly appreciate the co-operation we have received from him and his associates on this delegation.

At 5.25 p.m. the Committee adjourned to the call of the Chair.

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Canada Economic Re-establishment and
Social Security, Special Session, 1943
SESSION 1943

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THE SENATE OF CANADA



PROCEEDINGS

OF THE

SPECIAL COMMITTEE

ON

ECONOMIC RE-ESTABLISHMENT AND SOCIAL SECURITY

No. 3

The Honourable Norman P. Lambert, Chairman

WITNESS

(Before the Sub-Committee on Social Security)

Dr. Leonard C. Marsh, Research Adviser to the Advisory Committee on
Reconstruction.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943





ORDER OF APPOINTMENT

*Extract from the Minutes of the Proceedings of The Senate
for the 5th March, 1943*

Ordered,—That a Special Committee be appointed to consider and report upon matters arising out of post-war conditions, particularly those relating to problems of reconstruction and re-establishment and a national scheme of social and health insurance; and that the said Committee have authority to send for persons, papers and records.

Ordered,—That the Special Committee appointed to consider and report upon matters arising out of post-war conditions, particularly those relating to problems of reconstruction and re-establishment and a national scheme of social and health insurance, be composed of 38 members, namely: the Honourable Senators Aseltine, Ballantyne, Beaubien (*Montarville*), Beaubien (*St. Jean Baptiste*), Blais, Buchanan, Copp, David, Donnelly, DuTremblay, Fallis, Farris, Gouin, Haig, Horner, Howard, Hugessen, Jones, King, Lacasse, Lambert, Leger, Macdonald (*Cardigan*), Macdonald (*Richmond-West Cape Breton*), MacLennan, McRae, Marshall, Michener, Murdock, Paterson, Paquet, Robertson, Robicheau, Sinclair, Smith (*Victoria-Carleton*), Stevenson, White, and Wilson.

MINUTES OF EVIDENCE

THE SENATE,

OTTAWA, Wednesday, June 9, 1943.

The Subcommittee on Social Security of the Special Committee of the Senate on Economic Re-establishment and Social Security appointed to consider and report upon matters arising out of post-war conditions, particularly those relating to a national scheme of social and health insurance, met this day at 10.30 a.m.

Hon. A. K. Hugessen in the Chair.

The CHAIRMAN: Ladies and gentlemen, this is the first meeting of the Subcommittee on Social Security of the Special Committee of the Senate on Economic Re-establishment and Social Security. It was thought desirable to defer the holding of this first meeting until the report, prepared by Dr. Leonard Marsh for the Advisory Committee on Reconstruction, on social security for Canada had been printed and was available for general circulation. That did not take place until about a fortnight ago. Every member of the Subcommittee on Social Security was then furnished with a copy of the report, which is a somewhat voluminous document. The International Labour Office has just completed a summary of the report, which unfortunately was not available for circulation until to-day. It is a small booklet called Social Security Planning in Canada. It is available in both French and English, and this morning I asked the Clerk of the Committees to distribute copies of it to members of the subcommittee. I am sorry that so far there are not sufficient copies available for members of the general committee.

Our witness to-day is to be Dr. Leonard Marsh, the author of this report. With the permission of the committee I should like to read a few words of the evidence which Sir William Beveridge gave before the joint Senate and Commons committees on May 25 last in reference to Dr. Marsh and his report. Sir William Beveridge in the course of the evidence that he gave before the joint committees of both Houses had this to say about Dr. Marsh and his report:—

I could not conceive how any document of that ability, scope and length could have been produced between the publication of the Beveridge report and the time when it was produced. Yet, I gathered that it was. Dr. Marsh seems to me to be a young man of extraordinary energy and has produced a report of first-rate importance. That report, although it is Canadian to the core, and in some important ways differs from my proposals—it differs in regard to workmen's compensation; it differs in regard to proposing a graduated scale of benefits and contributions instead of a uniform scale—it sets out a plan for giving security on the same full scale as was proposed for Britain in my report. I have no doubt you will not adopt the whole of it any more than Britain will adopt the whole of the Beveridge report. But Britain will adopt most of the Beveridge report, I am sure, with suitable adjustments and variations. I hope that something like Dr. Marsh's plan or something better than it, if you can improve it, will come into force in this country as I think that something like the Beveridge report, or something better than it, will come into force in Britain.

Dr. Marsh proposes to divide his evidence into three sections. At the end of each section we can, if you wish, have discussions and questions.

The first group of subjects which Dr. Marsh proposes to deal with is the general background and the considerations leading to a general view of the whole question of social security. The second group will be certain special aspects of his proposals, their prospective effect on initiative and incentive, and their cost. Thirdly, there will be an invitation to members of the Senate to discuss any particular branch of his report or to ask questions thereon.

With this short introduction I call upon Professor Marsh to address you.

Dr. LEONARD C. MARSH (Research Adviser to the Advisory Committee on Reconstruction): Mr. Chairman, I thought that the Senate Committee would welcome the opportunity for some preliminary discussion of the background of social security, because this is the first occasion on which there has been such an opportunity. The House Committee is of course engaged in a detailed study of a special feature of social security—social insurance. There has been no opportunity yet for discussing the broad background of social security measures, the general post-war setting—and I emphasize post-war setting—in which social security must be considered. I cannot of course undertake to cover all of that field, I would not in fact want to take up your time in so doing, but with your permission I will at least run over the main headings of that general background, so that we may start off with certain of the more general statements which have been made.

There are after all two approaches to this whole question of social security: the broad issues of why we should consider it at all, and the general principles of social insurance legislation which always have to be adopted in the initial stages. The second stage is the exact detail of legislative enactments, administration, which of course comes into the picture when you have actual pieces of legislation. We are not yet in that position in Canada except as to one or two things, such as unemployment insurance and workmen's compensation. It is very necessary still, I suggest, that we have a good deal of discussion on the broad principles. I am sure members of this committee will recall that before we had unemployment insurance in Canada there was a long preliminary stage in which the broad principles of insurance were the main topic of discussion. It is always a great relief to those who believe in those principles to get that stage over, because once we have that legislation in effect it is more concrete to discuss whether the legislation is good or bad and to make any necessary changes. However, I am quite sure you feel collectively that it is extremely necessary to have some general discussion first of the particular background of social security legislation.

I would propose to do that as simply and briefly as possible under three heads. First, the economic context or the economic setting of the post-war period as that relates to social security. Secondly, the social context in which social security measures must be envisaged. Thirdly, the specific reasons for considering social insurance matters in Canada.

First, the economic context—if I may call it that. Quite obviously social security is one element in the post-war programme, and one element only. It is not and never has been anything else in the thinking of those who know what enters into the post-war programme. There is a great deal of confusion on that point. Social security and reconstruction are quite commonly used as though they were synonymous terms; to anyone who has carefully considered the matter this is very far from being the case. Social security has been carefully defined in the social security report. It refers to certain specific matters, of provision for specific sorts of risks, and that is a branch in itself. Maximum reconstruction is a much wider field, and in that wider field social security

measures are just a part. All I should like to do, with your permission, is to run over as a mere catalogue the other broad aspects of economic reconstruction which must also be considered. I do that in order to assure you that certainly I, and I am confident others as well who are seriously concerned with post-war reconstruction, are very well aware of the need of balancing, if you like, social security provisions against the other elements of economic policy, all of them extremely important and extremely difficult, that are part of our post-war problems. The list is five- or six- or sevenfold, according to the way in which you see these things. I am not suggesting for a minute that my list is the only one, but I think members of the committee will recognize immediately the main points.

First, the restoration of international commerce, which depends on intelligent and whole-hearted collaboration between the United Nations in rehabilitating the productive capacity of the occupied, devastated and undeveloped parts of the world in the future.

That could be elaborated a great deal. It is not my prerogative to do that to-day, but I want to postulate that for fear someone may think I am not regarding international commerce and international trade as fundamental. That is the first item on the post-war agenda.

Second. The facilitation of industrial reconversion to peace-time activities.

That again is the whole field of policy which I am not even purporting to go into, but I want to put it on the record.

Three. The measures necessary to fit agriculture to a new and more stable domestic and international pattern.

Quite clearly, that again is in the whole area of economic policy.

Four. The mobilization of a post-war employment and development program, not merely to provide substitute jobs at the crucial points in the transition, but to assist wherever possible in the economic process of reconstruction. On that point there is at least some elaboration in the social security report itself; therefore I do not need to say anything more. There is a section on unemployment measures which does not profess to go into the whole area of economic policy, but sets out the outline of the immediate matters that have to be considered.

Fifth: Monetary and fiscal policies, appropriately designed and flexibly operated so as to assist and knit together all other economic measures. There is no question that fiscal policies, taxation policies, loan policies—all things that refer to the national budget—are of paramount importance in any program of economic stability and restoration. I can only postulate that again; but it is very clearly in the minds of those who are trying to consider the whole picture.

Sixth: Training, transference and re-employment facilities. I would like to say one word about that. It is something that is apt to be taken for granted, but no matter how effective and well designed our economic programs may be they will not produce new jobs unless we have a network of training and transference facilities, because full employment in the post-war focus means the finding of new jobs—that is obvious—and it is obvious that we have to have first a network training facility. It is very difficult to get all the network of different types of training, public and private, required. Therefore there is a special section in the social security report which attempts to set out the main features; but I would like to say now that we are apt to be too complacent on that topic.

It happens to be true that we have made a great acceleration in the devising and operation of training schemes of all kinds. We have quite a proud record in that; but there has been little attention given as yet as to how those measures,

facilities and systems can be turned to the post-war problem, and unless we begin to turn to that we can just as easily be caught in that particular as in any other. I am merely trying to sound a note of warning on that point. We are apt to take training facilities and all that means too much for granted. It is very intricate in this country, and involves Dominion-provincial elaboration. There is a great deal of experience on the subject, but in my judgment there has not been sufficient focus on the post-war aspect of that matter.

Perhaps I should mention one more point. The sub-committee concerned with post-war employment has made a report, and will probably prepare a more consolidated report later on which will afford an opportunity for this committee to study that further if it so decides. So much for the general economic context. I am sure there is little that is unfamiliar to honourable senators in what I have said, but I think it will help if that is put on the record, so it will be fully understood that social security is not the only thing we have to consider. It must be balanced against these other areas of policy.

Before I can leave the economic context, there is one point I should like to mention. There is a prevalent practice just now of setting social security against the idea of full employment, as if in some way that were a dilemma, as if we had to make a choice—that we cannot consider social security measures unless we have full employment and therefore must swing to full employment for social security. That is a completely false dilemma. We cannot make such a decision. We have no alternative but to consider both. Perhaps I should make it understood that if social security is broadly and wrongly defined it will seem that that proposition is sound; but using the terms as they should be used, and social security in the sense of specific social insurance, on the one hand, as opposed to providing jobs for all, then it is really a false dilemma. Sir William Beveridge had that point put to him, as I am sure you will remember, and he answered in a way which was quite graphic. He said that social security is the trousers, and full employment is the coat, and what we had better do is make sure to get the trousers and then concentrate on the coat. That is a very vivid simile, though perhaps a simile is not the best way to describe the technical details. The technical details are these: whether or not we achieve a high level of employment, the fact is that there are areas of need of all kinds which will be untouched in some degree. Social security measures after all deal with a great many normal contingencies, such as sickness, disability and widowhood, which occur whether or not we have employment. It is really remarkable how small a proportion of social security legislation relates to unemployment; it is usually a minor proportion in any development of the scheme.

Then there is another point. There are certain forms of unemployment which will not necessarily be touched at all in the sense of eliminating the worst features of the trade cycle. If we manage to avoid a major post-war depression there will be still many types of unemployment which call for specific measures. Seasonal unemployment is peculiar to Canada. This is not really an attempt by fiscal policies and others supposed to bring about full employment. You need temporary means. Another example is that of depressed areas, where half the trouble is lack of resources and, sometimes, lack of human ability—backward areas untouched by the current of human progress. There are many such areas in the United States, but even in Canada there are some where employment conditions are indefensible. Full employment will not tackle those unless we have regional programs to get at those areas. And finally, on the question of social security versus full employment, if there are serious questions as to where we shall get our present level of national income, our present level of employment, and where we shall get three and a half million wage earners, surely the corollary is to be sure that we have a cushion to meet the situation to the extent to which we fail to reach those levels. We have to have a six or seven track mind, not a one track mind. It is unfortunate, but that is the truth.

Now a word about the social context of social security measures. Fundamentally social security measures as they are now understood are a part of the concept of the national minimum, or the social minimum, as it is sometimes called. That is the idea that the citizens of the country should have some kind of facilities and income—an opportunity which should be given to them all. That is the concept. Just what figure should be placed on that is a much more difficult matter. At the moment we have no such minimum; we have too many regional divergencies. Whether or not we are going to decide to have an absolute minimum for everybody is something which will be effected very much by the type of social insurance we propose. As everybody knows, the Beveridge plan essentially accepts that idea. It is a flat-rate scheme which says there shall be an income in pounds, shillings and pence. You have much the same concept in New Zealand. The figure has been measured more or less, and it is accepted as a floor. Those who have looked at my report will see that I have taken the view that we have so many regional divergencies that we may have to allow a good many of them to continue for some time. I think, if I may use the expression, that is the only statesmanlike view for the moment. But the general concept remains, whether or not we say that New Brunswick must have the same levels as British Columbia. The concept is that there is a level below which nobody should be allowed to fall. That has really become the civilized concept in the modern world. How is it achieved? It is not achieved solely by social security measures, by insurance against sickness and other disabilities that come within social legislation. The whole field of educational facilities is part of it. It is obviously influenced by the adequacy of housing. It is clearly acceptable in this country that it is influenced by nutrition, one of the greatest social developments in this war on the home front, and on the fighting front too, for that matter. I have no doubt that will be continued on a national level. There are a good many other things that are largely left to the provinces at the moment. All those things make up a social minimum program, and if you add to that social insurance of certain kinds you are going a long way towards a program for the effective utilization of human resources. That is the real essence of social insurance, that you use these various techniques to deal with human resources. One way of increasing production and capacity would be to see that the human beings who compose our human resources are made more efficient physically and, perhaps, in other ways too. That is the kind of thing that is really involved. Now, social security legislation is simply the easiest, the best tested, the best known of these devices. There is a wealth of experience on social insurance, some of it going back fifty or sixty years. It is still capable of infinite adaptation. I am personally quite confident that whatever kind of system we have in Canada, it will be influenced, conditioned, by Canadian conditions; we shall have a Canadian system, not something borrowed from somebody else. For instance, our unemployment insurance is taking on a specifically Canadian colour or shape, if you like.

Perhaps I should make one final statement before I leave this idea of the social context of social security. That is, that social insurance benefits are not nearly negative. There is a good deal of uninformed opinion on that point. The idea that social insurance is just a mere maintenance, that it does not do anything, that it is purely passive, that it is a defeatist approach to the whole problem, is just not true. [If you do something to keep people from poverty, you are making a positive contribution right there. You raise their morale, you give them a chance to retain their efficiency, you help them to maintain their physical health. In that way you make a positive contribution, just as you do when you educate a child instead of allowing him to grow up in ignorance.]

I think it should be clearly understood—the point is obvious enough—that if you have a comprehensive system of social insurance you go a long way to

keeping up the market for basic consumption needs, because social insurance disbursements are immediately expended on health facilities, on additional housing accommodation, and on food and clothing most of all. There is ample British experience on that point. That idea is brought out very forcibly, I know, in the United States Social Security Report, the Burns Report. The point is made repeatedly that this is after all a contribution of some importance to the full employment concept, and that it will give us some guarantee of keeping the basic level of consumer expenditures up rather than allowing them to fall badly, as would happen if you had large scale unemployment.

Under this heading, Mr. Chairman, I should like to run over rather quickly—because some of this is already covered in the report—the main reasons why social security legislation has to be considered in Canada. After all, this is a very important preliminary question. I suggest that there are two sets of reasons. One of them relates to the fact that the things which social insurances are intended to cover are normal and continuous. They go on all the time, whether we provide for them or not. The other is that there are specifically post-war aspects of the whole question.

So far as the first set of reasons is concerned, the continuing conditions, the first point is simply that there are contingencies of family life—sickness, particularly, disabilities of various kinds, which may become permanent; widowhood; premature death, and other matters, including the special strain on income because of large families—contingencies which are very real for the greater part of the Canadian population. If they are not met, if there is not sufficient preparation, they can cause poverty. I will not say any more about this, because the essentials have been set down on page 14 of the report.

The second of these normal or continuing reasons—and, when all is said and done, the basic reason—for considering social insurance at all, is the distribution of income. That is, after all, the very fundamental of social thinking and social action on all these matters. The plain fact is that we have a very large number of families, both rural and urban, whose income is not sufficient to enable them to provide adequately out of their own resources for all of these contingencies. That fact has been most demonstrated and most accepted, I think, in the field of medical care. There have been a number of special studies in this connection, and there are other reasons why this fact is most fully understood in connection with the matter of medical care. The income that you need, to be absolutely sure that you can take care of all possible medical contingencies out of your own resources, is very large; and we have not a great number of people with large incomes. If you add to that the problems of widowhood and other contingencies, particularly disabilities and so forth, it becomes quite clear that probably a majority of the population, rural and urban, unless they are assisted to save through techniques of social insurance, never have any guarantee that they can meet these contingencies. That has a double effect: a psychological effect and an economic or material effect. The material effect is the effect of poverty itself; and the psychological effect is the over-shadowing doubt in the minds of many people that something may happen to make it impossible for them to pay their debts, to provide for their children, and so on. These are very real considerations to many people, not mere figments of imagination, by any means. They are things that cloud the minds and interfere with the work of a great mass of the Canadian population. That is the basic reality of this whole thing.

The third normal or continuing reason for considering social insurance is to be found in the advantages of social insurance techniques. Granted that there may be all kinds of variations, the basic techniques have many advantages. First, they provide over-all coverage: they are as nearly comprehensive as they can be made, and the entire group can be brought in under them. Some people say that

is a disadvantage. But from the point of view of administrative efficiency, for instance, it is a positive advantage, for it means that you can apply the best methods over the whole, and there is no question that in the long run that efficiency produces worthwhile economic results.

Then, further, you have a particularly useful and happy, if you like, method of collecting revenue. The contributory system does garner in revenue over a large area. It is one of the least painful forms of taxation, I suppose, ever invented. And I personally suggest very strongly that this is a democratic technique, of which we have considerable need. I think that has been the experience in Great Britain. In spite of all the difficulties that the British scheme ran into, I believe the basic contributory concept did make the contributors feel that they had a real interest in the working of the scheme. They also get from it a real interest in a proper government policy to deal with unemployment.

Now, what about the specifically post-war reasons for considering social insurance? These can be easily enumerated. Each of them could be developed to a considerable extent, perhaps, but I do not want to take up too much of your time. First, clearly, there are the social objectives set forth in the Atlantic Charter, of which Canada is a signatory. References have been made to this many times, but I will quote again the fifth clause of the Atlantic Charter, which says that they, that is the United Nations, "desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labour standards, economic advancement and social security." I admit immediately that there you have those terms used very particularly. Whatever social security means, it is in the Atlantic Charter. It is so interpreted by the rapidly enlarging number of citizens of the world, and we are committed to do what we can to put it into effect.

Secondly, social security measures for the post-war period must be considered now, because they are definitely factors in morale. The fact that preparation is being made to take care of certain risks and contingencies, which, whether we believe it or not, loom very large in the minds of many of our citizens, is something that itself helps to win the war. People on the home front, and certainly people in uniform, are very much concerned about the way things will go when the war is actually over. I think if they are intelligent and properly informed, they will realize that social security is not all that matters now. But it is one thing that does happen to be given a great deal of significance. It provides at least a kind of minimum protection. As far as unemployment insurance goes, most people hope they may never have to use it, but it is good to know that it is there, if needed. As to health insurance, sickness happens whether there is a post-war problem or not, and it is a definite comfort for men in uniform to feel that medical care will be provided for their families in future. I do not wish to labour this point too much. It was put by Sir William Beveridge as succinctly as I have ever seen it. He said:

This does not alter three facts: that the purpose of victory is to live into a better world than the old world; that each individual citizen is more likely to concentrate upon his war effort if he feels that his Government will be ready in time with plans for that better world; that, if these plans are to be ready in time, they must be made now.

I do not think there is any question about the psychological import of that.

The third specifically post-war eventuality is the labour market dislocation that will face us when the war is over. Clearly, as I have emphasized before, we have to consider a whole host of new jobs, a whole host of transferences, and the part that can be played by unemployment insurance and similar schemes in helping to cushion this dislocation. I have suggested also in the report that, after all, the post-war transition will be a family re-assembly, a very real and

important fact for Canada. Everything that is done to contribute to family solidarity—and social insurance is obviously on that front—is of real import.

Finally, there is the consideration, which there may be an opportunity to discuss further, that social security disbursements are in themselves one means of mobilizing purchasing power. And mobilized purchasing power is an economic weapon which can be used, if we are skilful enough, to help out post-war transition. It should not be forgotten that that is clearly a post-war possibility, but whether we are skilful enough to bring it about, I do not know. It is one question that has been mentioned a good deal in some of the American comments on the subject; and in the report I quoted what seemed to me to be one of the most effective presentations of that point, the presentation by Dr. Altmeyer, who at that time was Chairman of the United States Security Board. But I have also heard similar points mentioned by several others. I can think of at least one prominent officer of the Chamber of Commerce and one of the social welfare workers. They are aware of the possible disbursements that are involved in social insurance and that may be very much needed. The basic economic fact of the post-war period is that Government expenditure on munitions and war products ceases. If that is all that happens, you get a depression.

That, I think, finishes what I have to say on the first section, Mr. Chairman.

The CHAIRMAN: Ladies and gentlemen, that, as Professor Marsh has said, is the first section of his remarks on the more or less general introductory topic of social security. I am sure members of the committee will have questions to ask Dr. Marsh in connection with what he has just said, and I am equally sure that he will be only too glad to answer them to the best of his ability.

Hon. Mr. BALLANTYNE: I suppose, Dr. Marsh, no one has estimated what the contributory system will mean to employers and employees in this scheme?

Dr. MARSH: Not in any detailed sense yet, Senator Ballantyne, but there is no doubt that those computations will have to be made.

Hon. Mr. BALLANTYNE: They have been made in England?

Dr. MARSH: Yes, they have.

Hon. Mr. BALLANTYNE: What are they?

Dr. MARSH: It may be possible to answer that now, but I am not quite sure. At any rate, they have computations for 1945. I can give you the exact figures, but I am afraid to trust my arithmetic to give you the exact proportions. They have a budget of £679,000,000 for the first year of the full scheme. They expect the insured persons to contribute £194,000,000 of that, the employers £137,000,000, and the tax revenue the balance. Roughly those proportions, I would say, are almost exactly one-half from Government sources, the other half roughly from employers and employees, with a bigger portion coming from the employees.

Hon. Mr. BALLANTYNE: Thank you very much.

Hon. Mr. MACARTHUR: Mr. Chairman, I should like to refer to Dr. Marsh's initial remarks on the Seven-point Charter. I am wondering whether he approached our problem directly from the Canadian viewpoint or from the Beveridge viewpoint. If Dr. Marsh were speaking in the United States or in Great Britain would he speak along the same lines? Would Dr. Marsh approve of Sir William Beveridge's general scheme, or does he think that his outline of the situation would suit Canada better? I expected the chairman to give a fuller introduction of the Professor's position, what his activities have been up to now. Sir William Beveridge is the older man and he has made a very careful study of social security. On the other hand, we have a young man who approaches these things with a fresh outlook, and his opinions should be considered at least as seriously as those of Sir William Beveridge.

Hon. Mr. LAMBERT: Mr. Chairman, I think most of us appreciate the clearness with which Dr. Marsh distinguished between the bases on which his report is made for Canada and the Beveridge report is made for Great Britain. If Senator MacArthur had been listening at the time, I think he would have understood as clearly as all the rest of us did that Dr. Marsh laid particular emphasis on the fact that his report is distinctly a Canadian report. It recognizes that the different provincial plans would probably have to be continued in that way as distinguished from the flat-rate plan in England. So far as Dr. Marsh's qualifications to appear before this committee are concerned, I should like to point out that anyone who is interested in social security should by this time be fully aware of his capacity to discuss the subject.

Dr. MARSH: Thank you, Senator Lambert. May I say a word or two in reply to the senator's question? Very definitely, Senator MacArthur, the report with which I am concerned deals with Canadian conditions only. Sir William Beveridge, when he gave evidence here, referred to one or two points on which my report differs from his. I told him afterwards that he did not by any means appreciate all the differences; there are a great many. The basic one is undoubtedly that to which Senator Lambert has already referred. I am extremely conscious of the differences in wage rate enactment and living conditions generally across this country—which after all is half a continent, not a tight little island like Great Britain. There wage rates and social conditions are pretty well levelled up. I am not arguing that we should not attempt some levelling up ourselves, but in this whole scheme I am trying to divide the more temporary needs from the more long-term needs. That is an important point. It proposes that for needs, such as unemployment benefits, which are transitional and which we must assume are not going to be continued for a long period, we may as well accept wage rate differences for a certain time. For long-term benefits, such as old age pensions and widow's pensions, which once they start go on without any change, I suggest we might just as well adopt the flat-rate system that Sir William Beveridge recommends. I have suggested it for rather different reasons—those of simplicity on the one hand, and on the other hand that a simple minimum rate for pensions and things of that kind still leaves room for individual provision and for industrial provision. If you have a basic rate which is only going to pay something like \$30 or \$40 a month, it still leaves plenty of incentive for those who can to add to it, by life insurance; and there is still an incentive industrially to carry on with industrial plans. The American structure has attempted to provide different rates for different incomes. There you have a different system altogether of private insurance. If you are now earning \$2,000 a year and look forward to a fairly substantial Government pension you will think twice before buying life insurance. On the other hand, if you can expect only a small pension you will still be interested in life insurance. That has been the basis of my thinking on the subject.

Hon. Mr. PATERSON: After the last war, Mr. Chairman, the momentum gained by industry lasted almost until 1929, when we entered the depths of the depression. How long does Dr. Marsh estimate that the momentum gained in this war will last and when we may expect a maximum depression? I suggest that the momentum may last longer this time, because the great destruction in Europe caused by the war will create a tremendous demand for materials for reconstruction and so postpone our depression period longer than after the last war.

Dr. MARSH: Mr. Chairman, it is a very complicated question. I admit immediately that the amount of dislocation to be faced will be so colossal that all the experience of the last war is irrelevant; there is no comparison. Even in Canada there must be a considerable amount of reconstruction. I cannot

elaborate on that now. I cannot say whether that means prosperous or depression conditions in Canada. As I say, it is a very difficult question. I think it may mean something of both conditions. So I still feel that we should be well advised to have certain elementary measures of social security.

Hon. Mr. LAMBERT: Mr. Chairman, I know Dr. Marsh referred to this point in his report, but I should like to ask whether he has any tabulation of the number of industrial establishments or institutions in this country which now have schemes of social security established, and whether those will be interfered with in any way by a State scheme, or whether they will be permitted to continue as subsidiary to or accompanying a State plan?

Dr. MARSH: I cannot answer that entirely, Mr. Chairman. There is a reference in the report to the most important field perhaps—certainly for post-war purposes—that is the industrial retirement plan. I was very anxious to get that in because it is clearly relevant. In regard to industrial retirement plans, the interesting thing after all so far as we can measure is the coverage of the working population; it is still very small. I will see if I can get the exact figure. As I remember, it is about 30 per cent, that is, if you take all the industrial schemes that provide for some kind of superannuation or retirement, it may be small or it may be large. Two surveys were made. The Purvis Commission, which you will recall, made a survey and Queen's University also made a survey a year afterwards I think. They both arrived at much the same result. I should like to check the figure before it goes into the record, Mr. Chairman, but it is in the report.

Hon. Mr. LAMBERT: Has our Department of Labour any record of that?

Dr. MARSH: The Purvis Commission report would of course emanate from the Department of Labour. The figure is 30 per cent. That is the best estimate which was available at that time. I think conditions may have changed a little since then, but not fundamentally. At that time with all the retirement plans then in operation, so far as they could measure them, they suggested that something like 30 per cent of our present wage-earning population were covered; in other words, 70 per cent were not covered.

Hon. Mr. KING: Covered partially or wholly?

Dr. MARSH: In that 30 per cent were a great many only partially covered, judging from the figures assembled. I cannot verify it, but I doubt whether to-day more than 10 or 15 per cent of our existing wage-earners are really adequately protected by superannuation.

Hon. Mr. LAMBERT: Would it not be a fair assumption that the best plan, the all-inclusive plan, such as health insurance and so on, exists in the manufacturing and industrial centres and in mercantile institutions such as the large department stores, rather than in the great basic industries of coal-mining, lumbering, and so on? Would not that probably explain the relatively small percentage?

Dr. MARSH: Yes, and I think that is a very important point.

As to the other point you raised, my conviction—I cannot put it more strongly than that—is that a basic minimum plan, taking pensions alone, would not displace any existing schemes. The Queen's University study raised that point, and the majority opinion they got on a canvass was that most of the plans make provision for supplementation if an over-all state plan is put into operation. In other words, you have a basic minimum scheme, and you adapt yours to fit in with it. If the over-all pension is \$40 it is going to be easier, because an industry will think twice about setting the scheme into operation. \$5 or \$10 a month will not do it. If, on the other hand, everybody gets this basic rate, the addition of \$5 or \$10 is worth considering. In my opinion there will be an increase of plans among the industries of the country.

In the health field the situation is different. I think there is obviously more room for modification on that score. Once again I would think that any industry that has a progressive policy in effect providing for medical care and sick leave with pay, could very easily adapt its policy if we get health insurance. Some might decide that they would not need a health insurance policy, but I think there is room for that. It is like a basic state pension and insurance. If you have something of a nucleus to build on, a man will improve his position.

Hon. Mr. KING: Speaking of allowances or pensions in Canada at the present time, the railways, I think, probably make more and better provision than other employers.

Dr. MARSH: It is certainly more uniform.

Hon. Mr. KING: Is that carried out by way of contribution from the men, or do the companies carry it?

Dr. MARSH: I do not know.

Hon. Mr. KING: I rather think it is the companies.

Hon. Mr. COPP: The railway companies contribute.

The CHAIRMAN: In the Special Railway Committee we had that question before us, and it was stated that there was a very large liability on both railway companies.

Hon. Mr. COPP: Yes, but I think the men contribute a certain proportion too.

Hon. Mr. BALLANTYNE: In a great many companies the minimum, as far as I know, would run about \$40 or \$50 or \$60 a month for ordinary labourers. For men holding higher positions the pension would be more liberal. They also have hospitalization for thirteen weeks in one company that I am connected with, in addition to a fairly generous pension.

I think the Queen's University survey is very liberal when it speaks of thirty per cent. My own opinion is that the figure is lower than that. It is very necessary that social security be established now, and it can easily fit in with the plans of industrial concerns that have been making provision. I think the large industries will welcome a social security plan.

Dr. MARSH: May I mention one more point about these industrial plans? A good many of them fail to cover the area where the need is greatest. In other words, the unskilled and casual workers are the people who need it most, and I think that there the companies would welcome some provision. After all, those employees are very hard to deal with; if you have people on the payroll for only six months it is hard to cover them. But if they were covered under a state scheme the companies would feel better about it.

Hon. Mr. BALLANTYNE: You are quite right. The ordinary labourer is left completely out in the cold, therefore there is all the more reason for taking care of him. If a man who works for fifteen years is taken care of, there are those who work for one or two years, or even up to ten years, who are left with practically nothing.

Dr. MARSH: And who become a public charge.

Hon. Mr. BALLANTYNE: Quite so. I may say again that all employers will welcome a basic plan, and it will dovetail in with what they are doing. As you have so well demonstrated, the mass of labourers who are not employed for a long time would be in desperate straits without a basic plan.

Hon. Mr. HORNER: I have not studied your whole report, but from the discussion so far I gather that when you speak of low earnings in certain parts of the country you are assuming that present day conditions will continue. Also, you referred to England, that tight little island, with its huge numbers of

people. There is a vast difference between that country and Canada, into which many people come and build their homes. I am afraid that this scheme, instead of improving morale, might work in the opposite direction; in other words it would induce men who should be seeking to labour and to build homes to throw themselves on the Government. This scheme of social security is something like placing a man on the rack and stretching him, taking him off it and healing him, and putting him back on it again. I believe a fundamental change is necessary. People are looking forward to some definite change in policy.

Hon. Mr. BALLANTYNE: But there will be a minimum given to people out of employment through no fault of their own. There will be a positive minimum so that families will not lack food, clothing and medical care. Under the Beveridge plan the minimum is, I think, \$9 a week in our money. That will be in effect whatever scheme is adopted.

Dr. MARSH: Could I reply to the question of morale?

The CHAIRMAN: In the next section of his remarks Dr. Marsh is proposing to take up the question raised as to incentive and initiative.

Hon. Mr. HORNER: I believe the last depression was unnecessary, and that any public man who is considering another depression in Canada, with all the wealth we have in this country, should be ashamed of himself.

Hon. Mr. ASELTINE: If the national income remains at the present level of between eight billion dollars and nine billion dollars per annum, would a scheme or plan of this kind be necessary at all? What would happen if the national income dropped to pre-war level of four and a half billion dollars? How would the money be raised?

The CHAIRMAN: As to the first question I have one comment to make on part of Dr. Marsh's statement. The great majority of these social security measures will be necessary whether we have unemployment or not; sickness and workmen's compensation are things that we have whether there is full employment or not. In order to deal with those there would need to be a redistribution of the national income to some extent, if the national income goes down to between four billion and five billion dollars, as it was before the war. You take the same position as the Chamber of Commerce, which submitted their memorandum last week. They seemed to feel that if the national income was going to drop considerably there was no use going into social security measures of this kind, because it would simply ration poverty. But when the whole country is poor I think you have to ration poverty. I would not say that because you thought the country was going to be poor that would be a reason for not introducing social security. I should think it would be a reason for seeing that the national income was evenly distributed.

Hon. Mr. HORNER: How often would you have to redistribute it?

Hon. Mrs. FALLIS: Following the thought expressed by Senator Ballantyne, who said we are all agreed that everyone should be looked after when through no fault of their own they have been reduced to poverty, how are we to know whether it is their own fault or not? I know that in our city hundreds of young people are making good wages to-day and are spending every cent on movies and pleasure. Those who are careful would, under some plan such as this, have to contribute to keep these other people, notwithstanding that it is decidedly their own fault. How do we draw the line?

Dr. MARSH: The great virtue of social security is that it is a form of saving which applies to everybody. Now, when people have larger incomes than they know what to do with—of course there are always victory loans—would be an admirable time to secure their contributions.

As to the other question, the great virtue of the social insurance mechanism is that if we have an efficient system of employment exchanges, without which

you cannot have the best unemployment insurance, you would say, "Now, here is a job. Are you going to take it?" If they refused it they couldn't get the insurance.

Hon. Mrs. FALLIS: It is largely a matter of administration and checking up.

Dr. MARSH: You substitute an over-all mechanism for all kinds of unco-ordinated methods and local administrations, some good and some bad. I do not say the national form will be all good.

Hon. Mr. LAMBERT: Have you any system of applying this plan to unfortunate agricultural areas where the families of farmers have suffered extreme hardship through no fault of their own? Is not that a problem entirely apart from the industrial areas?

Dr. MARSH: Yes, indeed. If the Chairman will permit me, I shall be very glad to say something on that. I think I can say honestly that I have given a great deal of thought to this. I am very conscious of the importance of the rural and agricultural areas of this country. I mentioned before that I talked to Sir William Beveridge after he made his statement, and the thing I impressed upon him was that you must not begin to talk about any plan of social insurance for Canada that does not take into account the agricultural areas. There are several ways of dealing with the thing. So far as medical care is concerned, I think you have the clearest case for insurance. You must have a system that will cover all the rural people as fast as you can gather them in. I myself am in favour of a contributory system for that, though I judge that the farmers are not.

Hon. Mr. LAMBERT: Definitely.

Dr. MARSH: I think, however, that there are merits in the contributory system, and I suggest that it could be modified in this way, that people whose income falls below a certain level need not contribute, except to the extent of paying a nominal fee. Let us say, for purposes of discussion, that persons with an income below \$1,000 would not be required to contribute. Well, every year the question would be asked of people whether they had an income of \$1,000 or more. A lot of farmers might have an income below that figure, in which event they would be provided with medical care, none the less, if they paid a nominal fee.

The CHAIRMAN: That would be something along the lines of the New Zealand system?

Dr. MARSH: Yes, Mr. Chairman. It is an extremely important matter, of course, because you must provide the people with medical care; you cannot allow them to go unattended if sick.

Hon. Mr. LAMBERT: I suppose that applies to disability too.

Dr. MARSH: Yes.

Hon. Mr. BUCHANAN: There are systems of that kind in rural areas now, medical services systems to which practically all the farmers in the districts concerned are contributing. If that idea were extended throughout the country it might be very acceptable to all farmers.

Hon. Mr. KING: Health insurance is of primary importance to the farmer. Labour insurance would not be so necessary.

Hon. Mr. BALLANTYNE: With regard to the remarks by Senator Fallis, what I had in mind was this. People would have to come under the contributory system, and I presume there would be something similar to what they had in England, known as the means test. That is, aid would not be given unless absolutely necessary, and there would be a check-up in this respect.

Dr. MARSH: That is a fundamental matter indeed. The whole point about social insurance is that it eliminates altogether the means test. What social insurance does is to set up a kind of contract, if you like—not a contract as it

is usually understood, but a special kind of contract, with which we are not yet very familiar in this country, but which is very well understood in Britain. You merely say to the individual: "If you will contribute as we tell you to, if you satisfy all the requirements, such as registering at an employment exchange, or getting a doctor's certificate, as the case may be, you know that if you become sick or unemployed you will have a right to a specific benefit." That is, people will be eligible for a benefit of so many dollars and cents, under certain conditions, and everybody, regardless of income, will be in the same position. Therefore there will be no need for a means test. If you satisfy certain conditions you get a benefit, so the whole necessity for a means test is taken away. That is of great importance, because the means test is the one thing that poor people loathe and hate.

HON. MR. BALLANTYNE: I am following up Senator Fallis' remarks. If a young married man is a spendthrift, if he spends all his income and is not a contributor to the scheme, what will you do in a case like that?

DR. MARSH: There will always be certain persons who will not submit willingly to a contributory form of insurance. But if it is made compulsory, they cannot refrain.

HON. MR. BALLANTYNE: A certain number of people may contribute for a while, and then, because of their own extravagance, be unable to keep up the contributions. How would you handle people of that kind?

DR. MARSH: They would have to show cause. If contributions for social insurance were made compulsory, people could not be excused. If you do not pay your income tax when it is due, you will have to pay it later on.

HON. MR. BALLANTYNE: Would such people be protected?

DR. MARSH: That is a rather difficult question. I suppose that if they needed medical care, you would have to see they got it.

HON. MR. BALLANTYNE: But let us leave aside medical care for the moment. There will be a lot of people such as Senator Fallis mentioned, who will fail to contribute anything, but who will need help for bare existence. What will you do with regard to them?

DR. MARSH: I suggest you would have to say that such persons are not on all fours with others, and that they are therefore not entitled to a regular benefit.

HON. MRS. FALLIS: Mr. Chairman, I had in mind too the fact that it would be some time before social security legislation could be put into force. In the meantime, thousands of these people are not attempting to save anything except what they are absolutely compelled to save. If after the war we have a period of unemployment, before they have been called upon to contribute anything to an insurance scheme, how will they be handled? Having wasted their earnings, they will not be able to look after themselves. I have heard this from the lips of a good many such people: "Oh, well, the country owes us a living, and we will get it." That is what you are told when you try to reason with them about the need for saving. The danger is that if young people think they are going to be taken care of, they may feel there is no need to save. How are we going to meet that condition?

THE CHAIRMAN: So far as unemployment insurance is concerned, the young people who are working are contributing compulsorily now.

HON. MRS. FALLIS: But the unemployment insurance benefits would not keep them if they were out of employment long after the war is over.

THE CHAIRMAN: It depends on the amount of their contributions, of course. I think the maximum period in which benefits are payable is twenty-six weeks. To that extent the virtue of social insurance is demonstrated.

Hon. Mrs. FALLIS: They are compelled to save whatever they pay into unemployment insurance. But they do not make any provision for contingencies of illness and that kind of thing.

Dr. MARSH: Through my studies of poverty and my contacts with it—very unpleasant ones, I assure you—my experience has been that improvidence is very often due to lack of faith in the future. If you have people who do not feel there are adequate preparations for them, they are apt to say, "We have got some money now and we will spend it." The more faith we have in the future, the more likely they are to save. Surely that is one of the fundamental differences between a married man and a single man. A married man is much more likely to save.

Hon. Mrs. FALLIS: On the part of those I have in mind, the desire seems to be to have a good time.

Dr. MARSH: With all respect, I think this extravagance has to be tracked down and analyzed carefully, before we can be quite sure that the great mass of munitions workers are spending their incomes without any regard to the future.

Hon. Mrs. FALLIS: I would not say the great mass, but quite a large percentage.

Dr. MARSH: I think it is abundantly clear that we need democratic education along with social insurance. But my conviction is that education is not just a matter of words; it is also a matter of action. If you put a scheme of social insurance into effect, you thereby undertake a process of education. I am willing to stake my word on this, that if a comprehensive system of social insurance were put into force in Canada, we should be surprised at the degree of responsibility that would soon show itself among wage earners. At the moment there is no assurance that this country is going to have social insurance, and that is one of the reasons why extravagance is still going on.

Hon. Mr. BUCHANAN: Do you know what the experience of other countries has been in relation to the class of persons mentioned by Senator Fallis? Has it been serious or not in New Zealand, for instance?

Dr. MARSH: I wish I could answer that. I do not know. I would suggest this—I know it is not a full answer—that New Zealanders have a high sense of responsibility as citizens. Perhaps they are a special type of people: they have, for instance, a strong Scotch element.

Hon. Mr. BUCHANAN: I was wondering whether the experience of other countries had shown that the problem brought about by people of the kind mentioned by Senator Fallis was as serious as we think it might be. I agree with Senator Fallis that there is a danger of certain people taking the kind of attitude to which she refers.

Dr. MARSH: The danger is there. But if you think of particular regions where the danger is worst, or particular races who will be more difficult to deal with, then you must face the problem directly. I suggest you must not say that social insurance will cause such a problem, and therefore social insurance is bad. I think you have to take those specific areas of irresponsibility and analyze them. Very often you may find to your surprise that the problem there is due to industrial conditions, or to lack of education, or something of that kind. There are certain areas where industrial conditions have always been bad, and there is no use in expecting social insurance to remedy the situation in such areas.

Hon. Mrs. FALLIS: Of course, New Zealand would scarcely be comparable to Canada. New Zealand is not as industrialized; it has a larger proportion of farmers; and farmers, as a rule are not people who throw themselves upon the country.

Dr. MARSH: There are two things that have to be remembered about New Zealand: that the level of education is very high, and that the general health of the people is unusually good.

Hon. Mr. BALLANTYNE: I am heartily in favour of a social security plan, but from what Dr. Marsh has said this morning I am convinced that a large number of people will have to be taken care of as a charge upon the public.

Dr. MARSH: I think much depends upon the way we organize our social insurance. My own feeling is that we have to pay the utmost attention to the constructive aspects of social insurance. If we are going to extend unemployment insurance, for instance, then we must do everything we can to improve our employment exchanges and our training facilities. If we are going to have a widespread system of health insurance, we must put the proper emphasis on the necessity of good medical care and healthy habits. If we are going to have children's allowances, we must devote our utmost attention to improving the efficiency of welfare services. I think that kind of thing is the corollary, and I am perfectly prepared to face it.

Hon. Mr. BALLANTYNE: Don't you think that Federated Charities and all that sort of thing will have to be continued?

Dr. MARSH: Certainly for some time. I think if that point were put specifically to them you would find they are very strongly in favour of basic social insurance. They would argue in this way: What we would like to see is a very much more uniform system which would take care of the broad problem. If that should leave us problem cases, we should be much more willing to handle them. If there had been unemployment insurance during the depression there would not have been all sorts of cases which were problem cases. They have trained social workers, and I am not suggesting for a minute that we shall not have problem cases; we shall have hundreds of them.

Hon. Mr. BALLANTYNE: Will a contributory system be compulsory?

Dr. MARSH: Yes, there is no case of a really contributory system that has not been compulsory.

Hon. Mr. BALLANTYNE: I am impressed with the fact that there will be a large number of persons who from unforeseen circumstances will be unable to continue their contributions, and they will have to be looked after by public charity.

Dr. MARSH: That is a very real question, Mr. Chairman, but it does depend entirely on the administrative setup that we provide for contributions. If we accept the principle of disability pensions, for instance, we in effect accept the principle that persons who are definitely out of work and therefore have no means to continue their contributions shall be kept in the scheme if they will pay a registration fee. If we do that there will have to be an income test.

Hon. Mr. BALLANTYNE: You are coming more and more to a means test investigation?

Dr. MARSH: Yes. I should like to distinguish between income registration and means test. In other words, you have to take a certain amount of information on trust as to income. That is very different from saying, "We are going to examine every penny that comes into your household and tell you how to spend it."

Hon. Mr. BALLANTYNE: Oh, no.

Hon. Mr. HORNER: What would be your opinion of State medicine? I might say that several municipalities of Western Canada hire doctors and pay their salaries and build municipal hospitals the expenditure being provided for in the taxes. The plan is giving every satisfaction both to the community and to the doctor himself.

Dr. MARSH: I can say that the great virtue of the health insurance plan that is being put forward at present is its leaving room for provincial variations, which is of particular importance there. I doubt its importance in other ways, but the plan does leave it open for provinces which have those schemes to continue their health insurance along the same lines.

Hon. Mr. HORNER: What about State medicine in the United States?

Dr. MARSH: State medicine as a national matter is a much bigger issue. My own feeling is that the people of Canada are not yet ready for it, and that we would do well to consider the contributory method, which is not State medicine, and then wait to see how it works.

Hon. Mr. HORNER: Did you ever read the book *One Hundred Million Guinea Pigs*?

Dr. MARSH: Yes.

Hon. Mr. ASELTINE: Is this a step towards State medicine?

Dr. MARSH: I do not think we can say that at all. If we work the contributory system all right we may prefer to keep it. I do not think we can pronounce on what the people of Canada will want twenty years from now, and if we do it will not be of much use. The British have taken that step. So far as I can judge they seem to like it. The doctors appear to like it. That is their affair. Let me meet your question head on, which I am apt to do. If we refrain from the plan of contributory medicine for fear it may be State medicine, I think we shall be ill advised. What we have to do is to face the fact that contributory methods are the most economical. It is up to us to make contributory medicine meet democratic requirements. If we do not like State medicine we do not need to have it.

Hon. Mr. ASELTINE: It seems to me it would solve the agriculture problem in connection with health insurance.

Dr. MARSH: Yes, it would.

The CHAIRMAN: Ladies and gentlemen, would you like Dr. Marsh to proceed to the next branch of his subject now?

Hon. Mr. HORNER: Perhaps Dr. Marsh would like the meeting adjourned now.

Hon. Mr. KING: Could we meet this afternoon to complete Dr. Marsh's presentation?

Dr. MARSH: I am at your disposal.

Hon. Mr. KING: I should like to suggest that in view of Dr. Marsh's comprehensive exposition this morning we should have the proceedings printed and circulated. I think Dr. Marsh will have to see us again after we have gone through his evidence.

The CHAIRMAN: Yes. Would the committee prefer to adjourn now until after the Senate meets this afternoon?

Hon. Mr. ASELTINE: How long will Dr. Marsh take with the next section?

Dr. MARSH: I think half an hour might complete it.

Hon. Mr. ASELTINE: I think we should have it now.

The CHAIRMAN: If that is the feeling of the committee, we might ask Dr. Marsh to proceed with the second part of his address.

Dr. MARSH: I will try to be brief, Mr. Chairman. It should be possible at any rate for me to say something on this vexed question of whether social security will destroy or hamper initiative or incentive to work. There has been a great deal of very ill-informed discussion on that point. It really hinges on what you understand by social insurance, and what is your particular belief about conditions of poverty and unemployment. That is the reason there is so

much discussion on this question. I venture to say that those who know the conditions of bare poverty are not in the least worried about these matters of destroying initiative and incentive. I think the first important and very practical point that must be cleared up if we are concerned with the effect on morale and on the incentive to work and the possibility of people simply battenning on the State is to get clear how much of social security disbursements can be subject to that criticism. The most important fact—it is really quite a startling fact to some people—is that if you outline a comprehensive social security system only a minor proportion of those disbursements is required for unemployment. I think there is very little question that those who object to a comprehensive social security system have in mind areas in which there is a possibility of people making no provision to get jobs or to look out for themselves but who simply say “The State will provide for me. I will simply draw my annuity.” That is what was in the objectors’ minds during the depression years when they began to get a comprehensive survey of the effects of the dole on large areas of the population where there was no incentive to work again. That only applies to unemployment insurance as a specific section of social insurance. The remarkable thing is that only 20 per cent or a quarter at most of a comprehensive social security system would be required for unemployment disbursements. If you look at the Beveridge plan, where it is gone into in great detail, you will find that even assuming an expansion of unemployment to all wage-earners, even assuming payment without any limit, even then the total disbursement is less than one-fifth of the total. In other words, about four-fifths of the expenditure for benefits available under social insurance are put aside for things like sickness, disability, widowhood, and of course children’s allowances, and old age pensions. Children’s allowances is a special thing and we shall have to come back to that. But things like widowhood, sickness, disability, old age, are not situations in which you can imagine people saying, “I will give up trying to make any contribution to society, I will simply draw my benefits.” If you are sick, you are sick and you need medical care. The cases in which people sham sickness in order to draw medical care, which means going to the doctor to get treatment, are very rare. I suggest it would be an extreme situation and most fantastic.

Hon. Mr. KING: There would be some, but they would be weeded out in course of time.

Dr. MARSH: Yes. There will always be hypochondriacs and people who plague the doctor.

Hon. Mr. HORNER: What about the thousands of men who continue to work after the doctor has told them they should be in bed?

Dr. MARSH: Yes, we need to follow those up. There are other rare cases, such as people who would deliberately get a leg broken or something of that sort in order to retire from work.

The second point in this big issue is, what is the direct cause of this failing or craze of those who become work shy or say, “I will make no provision for the future, I will leave the State to provide for me”? The basic cause is poverty itself, inadequate family income and economic conditions generally, things of that kind; but most of all, I suggest unemployment and poverty are the greatest destroyers of incentive and initiative. If people are starved of opportunities of education, they are the people who most likely will have no sense of social responsibility. I am not saying that that is the only class. There are cases known to most of us of persons who have had the best of opportunity, but who have become anti-social. But this is true, that the big cause of anti-social behaviour, of leaving the State to provide and not make one’s own contribution, is the poverty which we are trying to prevent. Unless we take that into account I believe our thinking on this subject is all distorted.

The third point is a comparison between social insurances and our existing methods of dealing with the needs. Let us face the facts again. We have these needs, they have been rather heaped upon us in Canada in the past without proper preparation, and as a result we have had to rely on inadequate methods to deal with them. Surely the verdict of history will be that our unemployment measures, with all the goodwill that went into them, were inadequate and in many cases demoralizing. Now we have no alternative. Either we say, "That is all we will do, we will leave the same conditions arise again; or we are going to use unemployment insurance." We have to make the choice, and we cannot dismiss the one to save criticism of the other. The conditions under which we give aid to people whose poverty is due to sickness, aid which is given through charitable agencies, are conditions which themselves can cause demoralization. Any social worker will tell you that when the poverty comes you find an incredible number of conditions contributing to the result. If you go into the case history you find all kinds of things. Then on top of that is the system of assistance. Once you get to that the process of demoralization begins.

The third point, I think, which was made by Senator Ballantyne, is the scale of benefits. We are talking in Canadian terms of only minimum amounts, and I want to say again that in the field of unemployment insurance I am suggesting, even though there are certain arguments against it, that we allow regional wage differentials to remain. If you look at the schedule of the unemployment scheme you will find hundreds of thousands of workers whose wage rates are very low, and whose benefits are correspondingly low. You will find people whose rates of benefits allow them to draw \$4 a week. Are those of a kind that will demoralize people so much that they will stay on the benefit? If that is true, are you not entitled to assume that the low wage is one of the causes? The fundamental, predisposing cause is the working condition of the worker.

HON. MR. HORNER: In many cases the low wage earners may be young men serving their first apprenticeship.

DR. MARSH: That is true.

HON. MR. HORNER: That is the time when I am most concerned about their morale being hurt.

DR. MARSH: I am glad that point has been made. If you have a man serving his apprenticeship and getting a low wage, you must argue that he is the least likely to get into that frame of mind. He knows that in the course of time he will get a better wage. If he is so foolish as to say, "I won't work," he can be dealt with in other ways. The challenge is up to us. If we ensure that everybody can get training, I think we will eliminate a great deal of this danger. If we do nothing and rely on unemployment insurance, as was done in the Welsh coal fields, we will get demoralization and worse. I think it is far better to speak vigorously on this. It is what we do, not unemployment insurance, that causes these conditions. We have areas where there is a feeling that industrial conditions are unsatisfactory, and if the only way to get a respite from industry is to draw an unemployment benefit, men will do that. But I do not think that is a criticism of unemployment insurance.

The final point is the special question of children's allowances. The point has been made that there lies a real danger; that if children's allowances are paid to large families, in some sections the contributions added together will make an income so large that a family will no longer bother about earning a living, and that what you have done is to pension off a group. Under what conditions will that happen? Supposing the children's allowance is very small, say \$5 per month, that is \$1.20 per week per child. If you have eight children whose living conditions are so low already that the family is willing to live on that income, that is a bad situation to begin with, but it is not a criticism

of children's allowances. Those are areas where you want the full attention of provincial services, voluntary services, and something more. It may be that there are areas of backward farming—there are some in New Brunswick. What you want is a program. To simply deny the children's allowances is, I think, to put the cart before the horse. I do not deny that if we have children's allowances and nothing else we will have trouble in some areas; but the real challenge is whether we are going to do anything or not.

I think the question of costs would be interesting.

The CHAIRMAN: Perhaps after the Senate adjourns we might ask Dr. Marsh to deal with the question of cost. Perhaps I might open the comment myself by referring to the statement he made that the basic cause of what we might call malingering is poverty itself. Where you have bad conditions in the home you are apt to have people who are not aware of their responsibilities, and who will get everything out of the state that they can. That tallies with my own experience in the Dependents Board of Trustees. You will find some cases, for instance, where boys of seventeen or eighteen are staying at home without making any attempt to get work, and in such cases you will probably find that the family have been on relief for a number of years and that their living and health conditions have been such for a long period that the children are not in a physical condition to go out and seek employment. I think it is from such areas that you will get the malingerer. I agree that if you can improve the general condition of the families you will not get so much malingering. We got a list of the different agencies to whom these families had applied, and in some of the worst cases we found that starting at the beginning of the depression in 1932 or 1933 they had gone through the whole gamut of every agency in the city of Montreal, and had reached a condition where they really expected someone else was going to look after them. But this all begins because of inadequacy in the home.

Hon. C. P. BEAUBIEN: You may be quite right, but don't you think that at the bottom of it there is a lack of education? In our institutions in Montreal we find that the people who are hard to deal with are those who have no training. When we ask what they do, they say, "Oh, I have been a labourer." If a man has a special trade you can probably find a place for him. Conditions, as you suggest, may be due to the fact that a family have been poor and have taken their children out of school to sell papers or carry parcels, and when they grow up they have no education and no trade. I do not know how we could foresee that and guard against it, but I know it is one of the great plagues we have. I do not know how we are going to get obligatory education.

The CHAIRMAN: That is why I think it important that Dr. Marsh should do as he did, and place the emphasis on the giving of facilities for training.

Hon. Mr. BEAUBIEN: That is absolutely necessary. The trouble we have had in Montreal is that for a number of years people have been on relief, and have got accustomed to it. Their standard of living is low; they get up at eleven o'clock in the morning and they have probably two meals, and if you offer them work they say, "How much are you going to give me for this?" And when you say, "\$20 a week," they say, "Oh, relief gives me, with my children, \$18 a week. Why should I go to work?"

Hon. Mr. HORNER: Conditions vary. One of the reasons why I am concerned about this affair is that in the early days in western Canada the young men worked in the summer time for fairly good wages, and in the winter for smaller wages. They spent no money; they believed they had to save their money or starve to death. With social security some of them would probably rely on the state for the rest of their lives. They will spend every cent they get and flock to the cities in the winter and go on relief. They will debauch themselves. That is what I am afraid of. Every farmer in western Canada can tell you the same story.

Dr. MARSH: In the early days there were opportunities. So long as there are opportunities on the land and in industry those opportunities can be taken up. I would not argue that if the opportunities are there people will be in some way demoralized by the existence of social security. I am thinking of the post-war period. If we are wise in our economic policies, if we re-convert our industries and stabilize agriculture and provide opportunities for employment, I cannot see that anyone is going to be so foolish as to say he will not take a job. On the other hand, if there are no opportunities and we fail in post-war reconstruction, we may expect that.

Hon. Mr. HORNER: Have you had experience of hiring help?

Dr. MARSH: No.

Hon. Mr. HORNER: The strange thing about it is that the higher the wages the less work you get done.

Dr. MARSH: I suspect the honourable senator is speaking with particular reference to agricultural labour. One of the problems of agricultural labour comes from the fact that its living standards are the lowest in the country. If we really want to see more enthusiasm for work on the farm, we have to do something to make farm life more attractive. That is a real question. I suspect that when we get down to it we shall find that one of the needs is a code of working conditions for farmers.

Hon. Mr. ASELTINE: You cannot pay very high wages with wheat at seventy cents a bushel.

Dr. MARSH: I quite appreciate that.

At 12.45 p.m. the Committee adjourned, to resume when the Senate rises this afternoon.

AFTERNOON SESSION

The committee resumed at 3.30 p.m.

The CHAIRMAN: Ladies and gentlemen, you will recall that when we adjourned this morning Dr. Marsh was about to deal with the cost to Canada of such a scheme of social security as he proposes. With your consent I would suggest that he take up that subject now.

Dr. MARSH: Mr. Chairman, ladies and gentlemen, I think the best way I can start is by referring to the one-billion-dollar figure, of which now I suppose everybody has heard. That figure needs a great deal of explanation, in fact almost all I have to say on this subject of cost is really a further explanation of what is involved.

First, it is the experience of countries which have had or are contemplating a comprehensive social insurance that something like 10 to 12 per cent of the total national income can be devoted to provision against these risks from unemployment to death, and including children's allowances. That seems to be the acceptable experience based on certain assumptions. The assumptions are that the system is comprehensive and that the rates are fairly adequate. There are only two countries really in which these obtain: one is New Zealand, where a comprehensive system is in effect already; the other is Great Britain, where there is a great deal of experience of course in the measurement of these things and where the Beveridge plan has been gone over thoroughly by the actuaries, so that the projected figures I would assume may be taken as being fairly authoritative, and they both show that something between 10 and 12½ per cent, one-tenth and one-eighth, if you like, of the national income can reasonably be devoted to social insurance under a comprehensive plan.

Having said that, it is very necessary to make many qualifications if we are to understand how that may apply to the Canadian position. The first point is, that is the total of disbursements, or of revenue if you like, which circulates as a result of payments as a whole. It does not necessarily mean new taxation. One cannot be very accurate about Canadian figures, because precise calculations have not yet been made, but judging again from very rough estimates which so far I have been able to make, and which I hope to check later on, and judging from the much more detailed figures of Great Britain, it is a pretty fair assumption that about one-half of the total would need to be raised from tax revenue. So if we are thinking of tax revenue, the cost, in the sense of budgetary cost as distinct from contributions, is merely \$500,000,000. This is the rough kind of figures which one has to think about.

It does not follow even that that very large sum in post-war terms is necessarily new taxation in a rather special sense. That \$500,000,000, or something like it, has to be viewed as against at least two billion dollars and figures of that order of expenditure for war purposes now. Nobody assumes that once the war is over we are going to continue to devote that amount of tax revenue, to say nothing of loan revenue, to war purposes. What exactly is going to be done is a matter of policy which has not been settled. But if we decide to enter upon a comprehensive system of social security once the war is over, we have to consider a situation which is much more manageable than might at first appear, namely, one in which there is some two billion dollars of taxation, most of which, not all, is no longer required, and in which new expenditure, if we have a comprehensive system immediately, is of the order of half a billion. I am not saying it is as simple as that when everything is settled, but at least those dimensions are more manageable than if we thought of one billion dollars.

Even that does not complete the picture by any means. Even a circulating fund, if you like, of one billion dollars assumes a fairly generous scheme. If the very rough estimates which I was able to make—very rough indeed, so rough that I would not want to put them on paper yet—even for those rough figures it assumed children's allowances for instance at a fairly generous rate, something like \$8 a month, which some people think too high. If the rates for children's allowances were reduced to \$5 a month, obviously you cut down the proportion of expenditure very considerably.

Take another example, old age pensions on an insurance basis. Old age pensions are a comparatively expensive item if they are to be made available for everybody, more particularly so in Canada because our population is growing older. There was a time thirty or forty years ago perhaps, when we had a very large group of young men, when our immigration was at its peak. Now those people who stayed in Canada are making a big hump, so to speak, in our age structure, and the time will come when they will constitute a heavy load on our old age pension possibilities. Everything depends there on the way in which old age pensions on a contributory basis are introduced. If we say, "We will pay pensions immediately," then everybody at a certain age will become eligible. If we adopt the Beveridge principle, or the principle which has been accepted in other countries, and say, "For the time being we will only make available pensions for people if they have contributed for, say, five or ten years, or something like that,"—even if it were only five years, that would mean no insurance pensions would be payable until the war had been over for five years. That is a point about old age pensions that is not yet fully realized, that if we decide there must be a contributory period, as for instance the American decided and as is proposed in the British scheme, we would actually withhold the payment of old age pensions for some considerable time, at least five years, perhaps ten. That would take a huge piece out of this potential total of one billion dollars or \$500,000,000, according to the way you look at it, whether you are thinking of the total disbursements or of contributions from the treasury. That item

alone is enough to show you that this one billion dollars is put forward to indicate the dimensions of the total program. It does not in the least commit even me, let alone the country, to such a total immediately the war is over. That figure depends entirely on the decision taken in regard to actual legislation.

Another point, still on the general plane, I think should be made in regard to cost, that is whether we are actually going to decide that we should inaugurate a comprehensive system immediately, or do it in a series of steps; in other words, decide on certain priorities between the various social insurance units. That is a very important decision. It is really the real meat of the problem, speaking legislatively, if I may put it that way. The decisions are quite complicated, and I should like to suggest what kinds of decisions there may be.

Social security in a comprehensive sense would include all the matters that are discussed in the various sections of this report—health insurance, disability, pensions, old age pensions, children's allowances, and so forth, the whole series, perhaps six or seven different units, which if all are bulked together give you comprehensive coverage. They can be regarded as units, and in certain ways they should be.

Each unit has certain special problems. If we are going to try to decide which shall come first, there is no simple way of making that decision. The first type of criterion, if you like, would be in terms of welfare. In terms of welfare, the contribution each particular unit of social insurance would make, there is hardly any doubt in my mind that health insurance comes first. The system of health insurance in the sense of medical care—I am speaking in terms of medical services, not of cash payments—gives you a system which promises immediate benefits for the nation as a whole. I do not think anybody talks of health insurance to-day without realizing immediately that it extends to medical care of children. The whole family will benefit from access to the doctor. In terms of welfare, the immediate gain we get, not in dollars and cents but in health and the freedom from epidemics, at least to some extent, and the improvement in health generally is so obvious a result that if we made our decision only in terms of welfare, I do not suppose there would be any hesitation with regard to health insurance. However, that is only one kind of criterion.

Another one has to do with the post-war transition, the possible dislocations of that period. If we are concerned with that, I think it is very likely that we may feel that old age pensions come first. So we might decide to give very special attention to that in the endeavour to accelerate old age pensions, the reason being that if we have an adequate system of old age pensions it serves to take off a considerable number of persons from our labour market. If we are apprehensive about the employment situation after the war, if we feel that at least for some time things will be dislocated, that however well things may be in the long run we are not going to have full employment immediately, then there is a strong argument to do what we can to take old workers off the market and give them pensions so they can retire honourably and leave the field open for younger men. Old age pensions have been proposed by a number of people on that account. If we took that view we would have to face the fact that in order to make old age pensions effective immediately the old age pension unit or fund would have to be subsidized. If we take the ground that old age pensions are contributory and that every individual must accumulate contributions for some time, we would delay the scheme possibly five or ten years. The best opinion on that subject is that the decision is not in the least inevitable; it is not necessary to insist that there must be a transitory period. It is merely a bookkeeping idea that the revenues required to pay old age pensions in a particular year are derived during that year. That can be done for individuals; it is quite possible to put money into a bank for an individual and know that it will be there for him ten years from now; but if you pay pensions you pay them out of current revenue, and if we feel that they are

a useful factor to help meet the pressure on the labour market once the war is over, we might be well advised to consider subsidizing the fund, deciding that people who attain the age of sixty-five within the first year after the war, even if they have made only one year's contributions, shall be pensioned, and setting up old age pensions immediately. That can be done if we are willing to pay out of the national revenue the amount of their contributions. That may sound technical, but you will find it dealt with in the report.

The point that has not been brought out is the possibility and the value of old age pensions. The decision I suggest has to be taken in the light of the need—and there is room for a difference of opinion on that—of relieving the labour market. If we are optimistic and feel fairly sure that an economic policy can be fashioned—internationally, of course—so that there will be no serious situation raised, then it might be quite in order to defer old age pensions for some time. We may be able to take the view that Sir William Beveridge has taken, that we would be well advised to put in a deferment arrangement which encourages people not to take their pension even though they have reached the age of sixty-five, and whereby we would say, "If you will defer the benefits, for every year you abstain from taking the pension you will get a little more." That is a thoroughly good principle, and has been recommended in this report. You thus assume that conditions in the labour market will be prosperous and healthy. But that is a secondary matter of considerable importance. The primary matter is whether or not we should do what we can now through contributory old age pensions to provide a way out of the labour market for the older workers. There is a lot to be said for that. If you put that decision into terms of cost you will see at once that it makes an immense difference. One way it may mean an item of \$100,000,000; the other way that item may be out for some time.

Children's allowances form another example which is largely dependent on rate, and there are other ways of economizing, if we want to, on children's allowances. These things would all affect this item of total cost. What I am trying to suggest is that the principle purpose of putting one billion dollars into this preliminary statement was to show the dimensions of the total programme. Whether or not we decide that we want to do the whole thing depends on a great many considerations.

I did not mention the third criterion, if you like, of deciding between the various units of social insurance. One of these is the contribution which social security disbursements make to general purchasing power. There is surely no question that one of the things we have to consider in the post-war period is ways and means of replacing the sums now being disbursed for war purposes. No one will deny the fundamental point that one of the reasons we have full employment now is that we have in effect a vast works programme and public expenditure programme. I do not say this is the sole reason we have a large national income, but it is one of the reasons. If we stop the munitions factory we do in effect stop an enormous expenditure which, unless it is made up immediately, means unemployment and depression. Everybody assumes that this is made up by peace-time industry; but there is a period of dislocation, and we have to consider whether we will substitute other forms of expenditure which will create employment and sustain purchasing power.

One of the weapons we can consider is the payment of things like children's allowances. There is no more effective way of providing purchasing power. It does not require equipment; it is not like a works programme. It is a means of payment immediately, which will immediately flow into the markets, and provided it is handled properly will go into food and clothing. If we want to use it, it is a means of wiping out this problem, and it may be that children's allowances should be considered on that score alone.

I am trying to put these points as matters for judgment. I am not saying there is no denial possible, but unquestionably we have to consider them as post-

war measures. It is arguable that the only safe thing to do is to put them all into operation; but each unit has a rather different argument if you are considering priority and the question of whether we should adopt the whole system at once or do it piecemeal.

There is one other aspect of the decision which is very important. The experience in social insurance and all types of social assistance is that if you have only one good organized form of assistance it is only a matter of time until you are forced to consider the others. If you have unemployment insurance it is not long before you have to consider cash benefits for periods of sickness. If a man gets benefits when employed, it is not reasonable that when he is sick and away from work he should get no benefits. If you are going to be logical and efficient that is a necessary complement to your unemployed insurance system. It is absolutely inevitable if you want your health insurance to contribute the maximum benefit to the nation. It is all very well to have medical care available, but if a man knows he is not going to get any wages while he is sick he may try to go on working, and if you take the welfare point of view you are forced to consider some kind of cash sickness benefit.

And you can go all along the line in that way. What is the good of a disability pension if the disability is such that it requires medical care? You really need disability pensions which give a minimum income and the medical care.

Almost every unit is strengthened if the other units are there, and the thing which puts the keystone in the arch, if you look at it in the proper light, is the children's allowance. Apart from what it means to individual families it is important in that it gets rid of anomalies and differences in trying to pay allowances to dependent groups. The children's allowance can be paid to families whether or not they are employed. You pay it to all groups in respect of the number of children in the family. We may make certain reservations, but fundamentally it is paid to all groups in the scheme whether there is unemployment or sickness or not.

What is the value of that? It removes from a man who is unemployed the necessity of having to make provision for his dependants. It is when the dependants come into the picture that you come up against the situation that a man with five children is almost better off out of work than a man with no children, or one child, who gets some benefit, but not enough to be an incentive to keep him from work. But if the children's benefit is paid throughout, that situation may not arise, so the interesting thing is that the children's allowance remove altogether one of the differences you can have in the case of large families with benefits amounting to almost as much or more than the whole wage. It is not purely a matter of cost, but of the desirability of looking at the system as a whole. If it is necessary to speak further on that, I should be glad to do so later on.

There are one or two smaller points that I should like to make, if I may. The first is that some costs of dealing with needs and contingencies we already have. That is particularly true of unemployment. Once again, if we are thinking of this billion dollars, or half billion dollars, it is already covered in the total figure. Our unemployment insurance scheme is in operation. It is not completely comprehensive, but it is fairly extensive. It already has \$100,000,000 in it, and the amount being paid in is of the order of \$60,000,000 a year. One of the interesting things about that fund is that the amount of money coming from the treasury is but a comparatively small proportion of the total. I forget the exact figure, but the amount of the contribution from tax sources is, I think, of the order of about \$20,000,000 a year. I could find the exact figure. That amount is already found. We have the system in operation. It seems to me fairly clear that we shall have to extend unemployment insurance

if we are to be safe in the post-war period. Perhaps I might voice the personal opinion—I think the Department of Labour would agree—that the financing is already provided, and that that much at any rate we have already.

There is another aspect of the matter. How about the groups who are not covered by unemployment insurance or any other provision? If there is unemployment, and there must be some for a short time in the post-war period, it will cost money somehow, somewhere. The cost cannot be avoided. We never have and never will avoid the costs of unemployment in some degree. We can pay for it at a very low rate, such a meagre rate that some people are nearly starving; but we have to do something. We must remember that there is some cost. Unemployment insurance will probably mean that we will probably spend more, because unemployment benefits must be reasonably adequate. That is one of the accepted things about an insurance system.

We shall spend more, but in the long run we shall spend it more efficiently. The point I am trying to make at the moment is, that when we are computing the total costs of a social security system we should remember that if we propose to set aside, let us say, \$100,000,000 for unemployment insurance, the chances are that we should have had to pay some part of that, perhaps a fifth or a half of it, even if we had no unemployment insurance at all. In other words, the expenditure is not entirely a net increase, because there is always some cost somewhere for unemployment. It may be met by individuals, by private charity, by municipalities, or by provincial and dominion funds, as it was in the last depression. The thing to remember is that the cost will be there somewhere. When we are computing what social insurance costs, we should bear in mind that once we have unemployment insurance in operation it automatically removes some costs that otherwise would have been incurred.

The same thing, with variations, is true of health insurance. I think it is probably best in that field. Everybody knows that sickness is costing the nation and individuals and families money all the time. If it did not cost anything, doctors would not get paid at all. Obviously there is some health bill going on all the time. What health insurance does is in some degree to reorganize that expenditure. When we compute the cost of a health insurance system at say, \$200,000,000 or \$250,000,000—it is of that order, we are fairly sure—we can be reasonably certain that some of that is existing income that is redistributed. So it is not fair to say that the cost of health insurance is \$250,000,000 in new taxation, or anything like that. It is a new form of expenditure. Undoubtedly there will be some net increase, and almost certainly some of it at the expense of the national treasury. But it is not all a net increase. The reason I am emphasizing this is that the items that are spent do not appear in any particular budget. We do not see, unless we make a special statistical inquiry, just how much is being spent on drugs, doctors' fees, and so on. But as soon as we have a health insurance scheme we shall have national statistics, showing that the fund receives so much and pays out so much. If we are not careful we are apt to get the idea that all of this is new expenditure. Well, it is new in a sense, but in the other sense it is not.

The final point, one that is fairly familiar now in discussions of social security, is that a good deal of the new fund is, after all is said and done, a redistribution of existing income. It is a desirable redistribution. There is no question but to some extent it is a redistribution as between groups. The better-off wage earners pay a little more than the less well-off earners. Clearly, wage earners who suffer no unemployment pay more into the fund than those who do suffer unemployment. Similarly, in so far as there is a tax contribution, that means that some revenue is contributed by the wealthier groups in society, and that purchasing power is redistributed in one form and another to the poorer groups. There are essentially redistribution, the net purpose of which is to raise the minimum and at least to prevent poverty.

Some people seem to regard that as an undesirable feature, but I think you have to look at it in a broad way. You have to argue that if you eliminate some of the worst forms of poverty, you have a better society to live in. If you are making a contribution to an unemployment insurance fund and know that you yourself are not likely to draw any benefits from it, you ought to feel that you are living in a community that is somewhat happier than it would be if it had no unemployment insurance; and that if you yourself do not in fact become unemployed, you are fortunate, because you are better off than those who do have to draw benefits from the fund. That is the way these things should be looked at. I mention that because I personally was interested when I saw how strongly that point was brought out in the discussion of the philosophy of social insurance in the Beveridge plan.

What Sir William Beveridge is suggesting to the British people is that they have got to stand together in some kind of communal and democratic solidarity on this thing. He is trying to make the point, which is a very important one, that in social insurance, as distinct from individual insurance, you make a contribution to a common fund. You do not say, "I am paying premiums on my own individual policy." You say, "I am making my contribution to a common pool, and if I do not have to draw on it, so much the better; if I do not suffer from sickness or disability, I am lucky. I know that as a result of the contributions made by me and my fellow citizens, poverty is eliminated in certain areas of society." That idea is fundamental in social insurance. We shall probably have to do a good deal of education on that point.

The terms "social insurance" and "social security" are rather misleading. People think of social security as meaning something that would protect them from all the hazards and dangers of life. That kind of protection cannot be given by anyone. Social security is meant to be security against the fear of absolute poverty. I suppose social insurance ought to be called: provision against the risk of elementary poverty. If we called it that, we should know what we are talking about; but it is not a very good phrase. This may be something of a digression, Mr. Chairman.

I think the redistribution angle is part of the consideration of costs, because we ought to realize, when we talk about this billion dollars, or whatever it may be, that a lot of it is really redistribution and not a new burden on the country. If it was a question of imposing a billion dollars of new costs on the people, we should certainly have to think twice about that. But when we say that we are going to devote a portion of the national income that we already have to raising the standard of living and paying for the cost of sickness and unemployment and so on, that is a different thing. I am not trying to do a Houdini trick, to make you think that the billion dollars is something unreal. It is part of the national wealth, and social insurance is really a way of handling it. Once we realize that, our thinking on the point is apt to be somewhat different.

I am not in a position to discuss details of costs, because there has been no actuarial assessment of proposed schemes for Canada, except perhaps with regard to health insurance; and I am not sure whether the framers of the health insurance bill would like to claim that there has been a complete actuarial assessment; I think they would prefer to have room for rechecking. But perhaps it would be possible to indicate, in a rough way, a little more about costs, if honourable senators have any questions on that.

Hon. Mr. WHITE: Mr. Chairman, I should like to ask Dr. Marsh if this plan is contemplated to replace any of the existing plans. I have in mind the war veterans' allowances, and schemes of that kind.

Dr. MARSH: That is a very important question, Mr. Chairman, which I did not attempt to pronounce upon in any way. I have suggested, however, that throughout the whole structure we have to consider that. I would be the last to

deny that people in uniform and their dependents have a right to certain special protections. They are getting those protections more or less comprehensively now. As I have said in the report, our soldiers, sailors and airmen and their dependents really have a microcosm of social security already. They have provision for training benefits, widows' pensions, children's allowances, and so forth. One of the the questions that we have to consider seriously is what transitional arrangement we shall make for that part of our population—a very large one now—when we get to a peace-time level. One possible answer to that is that we should continue the existing system, that those who as members of the armed forces are now entitled to certain privileges shall continue to get those rates in peace time, for the rest of their lives. Those rates are of course very much higher than anything ever proposed as minimum rates under a social security system.

On the other hand it can be argued that when a man now in uniform gets back to a peace-time job, provided he is not disabled, he is on all fours with a civilian, as far as social insurance benefits are concerned. If he is disabled, then there is, I think, a clear case for special privileges, but if he is not disabled he to all intents and purposes becomes a civilian again, and then if we have a social insurance scheme there will be no problem.

Hon. Mr. KING: He would come in under that.

Dr. MARSH: Yes. Undoubtedly he would be given rights to get into the scheme. Every member of the armed forces has special rights which would get him into the social insurance scheme; he gets credit for the number of years that he is in uniform. That transition can be made if we have a social security system. But of course at the moment we have no widows' pensions, on an insurance basis. We have mothers' allowances, but no children's allowances; and we lack a number of other parts of a social security program. So we do face that problem. I do not think there is any problem as regards disabled men, or men unemployed as a result of their services in the armed forces, as one would expect such men to retain certain privileges. But for the others we have to face the question of what transition should be made, how we are going to avoid what would be a real inequity as between them and the persons who did not serve in the armed forces.

Hon. Mrs. FALLIS: I should like to ask Dr. Marsh a question in connection with children's allowances. Do I understand that no matter how large a man's income may be, these children's allowances will be paid to his family?

Dr. MARSH: Mr. Chairman, I do not think there is any definite answer to the question asked by Senator Fallis. I have not tried to lay down all the details of a children's allowances scheme. My own view, which I give for what it is worth, is that it is better to have a completely comprehensive system. I should be inclined to restrict it to those groups in the community who make contributions. In other words, I would confine it to those who are in one of the contributory schemes, so that you would at any rate have a contribution from each beneficiary as a kind of check. The modern thinking on social insurance is that nearly everybody should be brought in. I think in the health insurance deliberations the view has been stated that it is probably better to get everybody in than to have it limited to certain groups.

Hon. Mr. KING: I think you must have everybody in.

Dr. MARSH: I think that is the best way.

Hon. Mr. MURDOCK: Mr. Chairman, may I ask a question of Dr. Marsh?

The CHAIRMAN: Would you mind if first I made one comment on Mrs. Fallis' question? Dr. Marsh's suggestion in his report was that people in all income groups should be eligible for children's allowances but that the present deductions on account of children in the income tax should be abolished. So people of large incomes would really be in the same position as at present.

Hon. Mr. MURDOCK: Dr. Marsh, both the Canadian National and the Canadian Pacific have pension schemes governing the employment of 130,000 to 150,000 workers. If this plan of yours were put into effect would those pension schemes of the two railways be incorporated in it and be discontinued as separate pension schemes?

Dr. MARSH: The proper answer, of course, Senator Murdock, is that that would depend on the legislative bodies concerned. The situation would be similar to that with respect to unemployment insurance. When this matter came before the Canadian Parliament the big question was whether the railways should be included or not for the railway workers already had substantial protection in a certain way. I have not given any special thought to the question of the retirement pensions of the railways. It is arguable that since their pensions are so well organized they might be excluded from an old age pension scheme.

Hon. Mr. MURDOCK: They are paying unemployment insurance up to a certain amount.

Dr. MARSH: My own preference would be to include them. I see no reason why railway workers should not have the benefit which everybody else in the country would get. If the railway man is permitted to put up another contribution, which I expect would be a good deal smaller than what he pays now—I do not know, but it is almost certain that a contributory old age pension plan would call for fairly low rates for national coverage. I should think that most railway men would be only too glad to add this contribution to what they are already paying in order to supplement their old age pensions. But that is only a personal view. It seems to me that there you have a very special case, which might very well be debated in the committee once we get to the point of legislation.

Hon. C. P. BEAUBIEN: Dr. Marsh, after the war there will be a strong demand for the reduction of taxation from every point of view, from the top to the bottom of the ladder. Workers to-day are getting deadly tired of having deductions from their wages for eight or ten different reasons. It will be very difficult to put into effect so vast a scheme as you have outlined unless you can explain to the people pretty well what it is going to cost. You have been very guarded in what you have said, and I think we must compliment you for it; you used the phrase "generally speaking," and so forth. Is there anything upon which you can base a fairly good evaluation of what these proposed services will cost, so that all those who are eager to improve conditions for the public, and I think they are in the great majority, will be able to defend your scheme?

Dr. MARSH: I thank you, Senator Beaubien, for bringing up that point. The answer fundamentally is Yes. Take the simple case of old age pensions. There are only two things we need to know: the number of people, let us say, aged 60 now, and the rate per year which we propose to pay. Having got that information, you can make a few adjustments and can soon find almost exactly what you will have to pay. I think we shall have to make those computations and, except for a very few typical cases, we are getting those figures to-day. I am trying to do that in my spare time. As soon as those figures are obtained they will be available to the groups. Actuaries do that kind of work. I have no doubt we can get figures which will enable us to say, "We can do this at a cost so much per head." I made rough calculations to show what would probably be called for from wage-earners from employers, from farmers and from the Government. What you have to think of is perhaps an average amount from a farmer of about seventy cents a month, from wage-earners and so on perhaps a dollar to two dollars a month, and so on. Those figures can be checked up in much more detail than I have done yet.

Hon. C. P. BEAUBIEN: So far as old age pensions are concerned there is not very much doubt as to the cost; an actuary can work that out. But what about the cost of medical care, for instance? How are you going to arrange for that? Are you entering on a scheme that will require one billion dollars next year and one and a half billion dollars the following year? That is the great difficulty confronting me: the uncertainty as to the cost. This country requires every cent we can put into it for its development. That is something we must not forget. This is a hard country and we want our people to make their money work. This country cannot afford to have luxuries. We have no capital accumulated here compared with what they have in Europe. Can you calculate the cost of all these new services you are going to give as closely as you can the cost of old age pensions? Mind you, I am not doubting that you can, but I should like to know how, because if I am to defend the scheme I must explain it and have my explanation accepted.

Dr. MARSH: I think there are two things which should be said. First, in a field like medical care we could be so foolishly generous as to find ourselves spending more than we could afford—theoretically at any rate. In practice we should not, because we have only a limited number of hospitals and doctors, but theoretically we could begin to spend too much. At the beginning of any scheme there would have to be regulations setting out how much care could be provided, and health insurance experience is full of that sort of thing. There is a minimum of care. I think everybody who is contemplating framing a health insurance scheme is aware that in the first year or two years obviously there is a big backlog of sickness through lack of medical attention that has to be faced. I cannot imagine that any health insurance scheme in Canada will be devised which does not start off with certain limits in the first year or so. Take dental care. Probably that is more than we can handle at this moment. We should have to say that we can only do certain things. For instance, we cannot provide dentures for everybody. The one point absolutely accepted by experts in health insurance is that you must have a special body, committee or group, or one man it may be, whose function is to look at the finances of the scheme year by year; actually he looks at them continuously, but he makes his report every year. It is what the British accountant calls the "watchdog" principle. There is such a committee for unemployment insurance in Great Britain. Everybody knows the sad history of British unemployment insurance. I doubt whether it is as well known how much more efficient British unemployment insurance is now. Of course, the committee just stands guard over the fund and every year makes a report and as occasion requires may demand reductions in benefits to keep the fund solvent. That watchdog principle I think is the real guarantee of soundness and of preventing your going beyond your means. Certainly that would be absolutely essential for any Canadian schemes. We should have to have an expert committee. It might possibly be one person, something like the present Auditor-General, somebody whose job it would be to take an independent view of the finances of the scheme. The great beauty of an insurance scheme is that it does produce statistics which gives you more information than you ever had before in regard to sickness and disability.

Hon. C. P. BEAUBIEN: You cannot gauge it now?

Dr. MARSH: You cannot gauge it now; but once we have insurance we shall begin to know, and then I expect we shall be in a much better position to find out what we can and what we cannot afford.

Hon. C. P. BEAUBIEN: Then, doctor, if you start that scheme and find it too expensive, what are you going to do? You cannot very well gauge the cost of medical service in Canada with the cost in Europe, where there is such a dense population. Senator King knows that doctors in our country have to drive out miles to visit patients, while in England they would probably only have to go next door to attend patients. You would have to start from nothing there.

Dr. MARSH: More or less.

Hon. Mr. KING: It is hardly from nothing, if I may interject. In various parts of Canada systems are in operation by which doctors have undertaken for so much remuneration to give medical care to those covered by the system. I have had thirty odd years' experience and seen how the system worked. The contributors received excellent treatment and it did not cost them very much money. To-day in the city of Ottawa a group of people are employing doctors. To meet the cost they pay a certain assessment each year, in return for which they get medical and hospital treatment. With the system in effect now I do not think we need be too much alarmed about meeting the situation. I know of no part of social insurance that would be so beneficial to the people generally as health insurance. It is pretty much a matter of good administration. If that can be had, then I think the system can be worked out at no loss to the taxpayer.

Hon. C. P. BEAUBIEN: One of the things that I think will have to be worked out is an explanation that will satisfy the people who are anxious—and they may well be anxious—when they take on a new load that will be twice as heavy as the one carried before the war.

Hon. Mr. GOUIN: Mr. Chairman, I have read very carefully the report of Dr. Marsh, and I think he deserves our hearty congratulations, because it is a very remarkable study. I have spent twenty-five years of my life studying social problems, to which I should like to make my modest contribution. I have listened to the discussion which has just taken place concerning health insurance. Personally I have come to the conclusion that health insurance is desirable, and I believe it is more or less a question of redistribution, of who is going to pay what I would call the medical bills. But I share the spirit of the honourable senator from Montarville (Hon. C. P. Beaubien) when it comes to embarking upon the elaboration of a total plan of social security.

If I understand correctly the conclusions of Dr. Marsh—he may correct me if I am wrong—he is of the opinion that it is important not to approach the problem piecemeal. As to this I would agree, but I would say that we should try to evolve a system gradually, obtain a general view of the problems and begin, for instance, with health insurance.

Again, if I understand the stress which has been laid by Dr. Marsh on certain aspects of social security, a readjustment of old age pensions would be one of the things as to which I think there is the greatest urgency. But there are other matters, like workmen's compensation, which so far seem to have worked fairly well at all events; and, as we would say in French, if we embrace too much at the same time the result may be disastrous. I am of the opinion that at the end of the war we will not be in a position financially to undertake immediately a scheme of total security. I think we should begin with health insurance, and should try to evolve a system which would not merely put on one side the state and on the other side the individual. I listened with great attention to the remarks of the honourable senator from Parkdale (Hon. Mr. Murdock) concerning the pension-retirement fund of the railway employees. I would have been glad if Dr. Marsh, in his report, had not ignored organized labour and the professions. Any scheme of social security would be without a soul, it would be only a bureaucratic skeleton, so to speak, if it did not rely on the co-operation of organized labour and the professions. I regard trade unions as being really institutions of social progress. That they are humane institutions we all know. A purely state or governmental system of social security will discourage free enterprise and private initiative, and if every man is put on the same level, regardless of whether or not he has shown a spirit of thrift and economy, it will not stimulate legitimate ambition. This country

has been built upon free enterprise and private initiative, and what we need, surely, is to develop also a spirit of collective initiative on the part of institutions like organized labour and the different professions. Otherwise the state will be overburdened and transformed into a sort of providence, which would be too much for the government.

Dr. MARSH: Senator Gouin has raised a great many points, and I am sure he will not expect me to try to deal with all of them. I should like to say, however, first of all, as to the possibility of the co-operative administration of insurance, I am very well aware of the fact that insurances were pioneered by the trade unions. Nobody who ever studied under Sir William Beveridge would forget that. I am far from having forgotten organized labour or the professional or co-operative groups; I am very conscious indeed of co-operation in all its phases. The issue is this: are we to attempt to cover need everywhere? Organized labour in this country covers only something like twenty-five per cent or thirty per cent of all labour. To be very generous, I challenge anyone to prove that it covers more than fifty per cent of wage earners. So, if you depend on trade unions and the professional associations, or even upon farmers' co-operatives, as they have done in Belgium, you would not get complete coverage and unfortunately the people who are left out are those most in need of coverage. The people who are not organized are mostly unskilled workers. Les Syndicats Catholique have done more to organize labour than most trade unions. But it is the unskilled labourers who are not organized. Substantially the same thing is true, I think, of the farmers. The poorest farmers, those on poor land and those who are pioneering, are not in organizations. There is only one organization that can deal with the submerged groups that really need protection. Where I differ from Senator Gouin on the possibility of bureaucracy is that I believe social insurance can be made a democratic instrument. I believe it can be worked out in such a way that it is a symbol of citizenship. That is what it has become in Britain. In that country they do not regard this thing as bureaucracy. They are aware that they are paying as citizens, and they are more aware that they are taking part in what is going on.

What we do not know much about in this country is the administration machinery of insurance. In all insurance systems you must have committees to deal with disputes. In Britain they have grown groups of committees to which disputes are referred by the small committees, and labour is always represented on these groups; and in the few rural areas the farmers are represented. They have a democratic system. We can do the same thing in this country. I am not afraid of government. I think that if we take our courage in both hands we can make the state "us". That is an idea foreign to some people. The Government is something far removed from them. It may be a matter of faith, if you like, but I think it is a matter of organization. I think we have to make our insurance a democratic organization. If it is not, I do not want to have anything to do with it. We must at every point call on local groups, trade unions, professional associations and the church. I am only too happy to have their help. I have already written to a number of people in Quebec about the administration in their province, and I am sure that if we approach them in the right way we can find democratic methods of procedure.

That is another thing I have kept in mind. I am very well aware that in the experiments in democratic organization we have a long way to go.

Senator Gouin referred to workmen's compensation, and said it was working very well, though it needed some improvements. I suggested that it was working so well that we should leave it alone. I think that is a good principle whenever we are pretty sure something is going well, but on the major issue I do not think a bureaucracy is essential. Whether or not we have a bureaucracy depends on us. If we devise our legislation properly we can get democracy. If we have concentration, it will be a very undesirable thing.

Hon. Mr. GOUIN: I am very glad we have had these explanations, because there are some complaints among my labour friends concerning unemployment, and if we can evolve a social democracy it would be a matter of satisfaction to all Canadians. There is one point which I forgot to mention. Dr. Marsh seems to have taken the attitude that what I would call federal centralization is necessary. Personally, I fail to see why it is necessary with, for instance, children's allowances. I should be glad to have a few words of explanation on that very important point.

Dr. MARSH: I am very glad that point has come up. I feel, of course, that the whole question of division of responsibility between the Dominion and the provinces is clearly a fundamentally Canadian feature, which must be considered properly. Certain angles of it seem now fairly clear. It seemed to me, at any rate, quite consistent that health insurance should be provincially administered. I have suggested that we ought to consider a national system of collection, and I am prepared to argue that on some other occasion. But I do feel that provincial administration is called for, because health services are provincial, and there are very special provincial differences, as in the attitude to medical care, and in the matter of doctors' fees, and all kinds of things. Workmen's compensation also seemed to me to be a clear case. Then, in the matter of training projects, I suggested that we have the foundations laid. We have room for both Dominion and provincial joint projects, and it seemed to me they should be left. We have accepted the principle of a national system of unemployment insurance. Now, the big question is as to the other things.

My own feeling is that old age pensions do not raise any question of provincial rights. I am not speaking as a lawyer. It seemed to me that they are a straightforward thing, and that once they are provided for they might just as well be paid by the post office, for instance, as by any other agency. There is room for discussion on that. The matter of children's allowances is one whose administration calls for a great deal of thought. The relation of these allowances to provincial welfare services must be ironed out. I did not endeavour to suggest just how this should be done, for the good reason that we do not know enough about provincial welfare services just now; we have never had a good survey. The kind of thing I personally should like to see is some arrangement by which the services relating to children are administered provincially, with the children's allowances provided through federal sources. That is my own compromise. The reason is that the monetary allowance is a straightforward thing: If there is a family, there is a rate applicable, and there is the money. But I think one would naturally assume that the administration, which means the welfare services applicable to children, would be handled mostly by the provinces. I therefore assume that provincial administration would come into the picture. But it is a new field, and I still feel that there might be certain aspects of the thing which would be handled centrally without any trespassing on provincial rights. However, I am very much open to discussion. My own position would be that we ought to ask ourselves exactly how the allowances would be paid and how the whole thing would be worked out. There is a lot of detail work to be done. I did not assume for one minute that children's allowances should be an entirely centralized affair, for I am very conscious of the important work that is done by the provincial welfare services; but I do not think these services are quite adequate.

Hon. Mr. KING: But they are being improved.

Dr. MARSH: Oh, all the time.

Hon. Mr. KING: Markedly improved.

Dr. MARSH: Yes. My point is that I do not think we know enough about the provincial welfare services just now to suggest just how these children's allowances should be handled.

Hon. Mrs. FALLIS: Dr. Marsh made one point which I do not think can be stressed too strongly, namely, that in discussing social security with the public it should be made clear that it is not a government affair, but a community affair. Unfortunately it is a characteristic of human nature that people who would never dream of cheating one another have no compunction at all about cheating the government. I have seen instances of that, as I am sure you all have. As Senator Beaubien said, in connection with old age pensions, it used to be thought that when parents became too old to work they should be kept by their children. But now we see every day cases of well-to-do farmers deeding over their property to their children and expecting to be kept by the country. They would not dream of cheating a neighbour, but they do not mind taking money from the government. I think it cannot be too strongly stressed upon the people that whatever social security scheme we adopt will be their own scheme, and I am very glad that Dr. Marsh made that point.

Hon. C. P. BEAUBIEN: Dr. Marsh, there is one thing I should like to ask you. The enormous amount of money that would be required for a social insurance scheme would come to a very large extent from the people with small incomes, from the people with incomes of \$3,000 and less. Eighty per cent of the income tax is paid by people in that class.

Dr. MARSH: That is probably true. I do not know. The principal reason would be that eighty per cent of our people are in that income range.

Hon. C. P. BEAUBIEN: When the Government wants to increase its revenue, they go for the money where it is, and that is where it is. Of course the point would be made, I suppose, that the people who pay for social security are the ones who enjoy its benefits. These people will in time realize that the cost of the social security scheme is paid for, first, by deductions from their own wages; secondly, by the payments made by their employers, who increase on that account the prices charged for their goods, the increased prices being paid in large part by these workers and others in their income class; and thirdly, by taxes, most of which as I say, are paid by these people. So they would practically have to pay for 80 per cent of the cost of the scheme, perhaps a little more than 80 per cent. Now, will they accept that heavy load? I am coming back to what my friend Senator Gouin said. It is a good thing, I think, for us to do that in our country. But will you be able to make the people bear practically the whole load at first? Would it not be wiser to say that plans that are running along well should be allowed to continue, and that the people should be given their medicine, which is excellent, by spoonfuls, gradually, until they realize the improvement in their condition? I think your great difficulty would be getting people to assume this heavy load at first. I know that some people are afraid of it, particularly as the benefits of the scheme are not very definite.

Dr. MARSH: I do not know whether I should reply to that, Mr. Chairman. Fundamentally, the people have to pay anyway; there is no question about that.

Hon. C. P. BEAUBIEN: They are paying now, and they are satisfied. Why disturb the present situation?

Dr. MARSH: We really have to offer them a choice. Do they want to go along in an uncertain and haphazard way, as regards problems arising from sickness, old age, and so on, or do they want to meet these problems systematically? The choice is between hoping that you will not get sick, so that you will not have a big bill to pay, and putting aside a certain amount at regular intervals to meet the contingency of sickness. I know which I would choose, and which I have in fact chosen.

Hon. C. P. BEAUBIEN: That is a different thing altogether. I am speaking of services that are working well now. For instance, there are pension plans operated not only by the railway companies, but by the banks, plans that have

been working well for a great many years. Employees have paid in part of their salaries to build up a fund, and when these employees reach a certain age—I think it is sixty now—they are eligible for a pension. That is a good thing. Why disturb that?

Dr. MARSH: The blunt answer is that those are privileged groups.

Hon. C. P. BEAUBIEN: Wherever such a thing is working well, why not leave well-enough alone? It would be easier to get the people to accept a scheme gradually, than to impose a burden of one billion dollars a year upon them at once.

Hon. Mrs. WILSON: At a meeting which I attended in Toronto last night the questions raised by people there were along this line: If the Government is able to find so many billions for war, why cannot we be looked after in case we need help when the war is over? That query came from every part of the room, and the people who asked it were not poor.

Hon. C. P. BEAUBIEN: The Government will have to answer that question.

Hon. Mrs. FALLIS: Where is the money to come from? I suppose the answer is that in order to carry on the war people will stand for taxation that they would not stand for in times of peace. Everybody is looking forward to having their taxes reduced when the war is over.

Hon. Mrs. WILSON: The cost of a social security plan would be a mere nothing compared with what we are paying to-day. We are paying large sums to-day, anyway, for services that are relatively inefficient.

Hon. Mr. LAMBERT: There is one practical aspect of this thing that appeals to me. I assume that the carrying out of the recommendations in the report, that is, any recommendations as to an over-all plan of social security, depends upon a federal authority.

Dr. MARSH: Yes.

Hon. Mr. LAMBERT: That being so, we would not be faced with the problem of constitutional adjustment between the Dominion and the provinces to meet, for example, the objection that would surely be raised of the people of one province being taxed to help pay for the social services of the people in another province.

Now, in view of the massed population and the massed wealth of Ontario and Quebec, before any progress can be made with this plan is it not necessary to have complete co-operation between all the nine provinces in their relations with the Dominion? Until that fundamental question is settled can we hope to get very far with the necessary arrangements, legislative or organizational, in the federal field of authority? You have had the opportunity during the past year or so of travelling throughout the Dominion and discussing this question with people in the various provinces, and I should be interested in having your impression as to how far you feel there is a sufficient national concern to make this proposal effective. Personally I feel that if an over-all plan of social security would contribute towards strengthening that feeling of national consciousness, it would serve a justifiable end in itself, and would be one of the factors which might ensure its success.

Dr. MARSH: Mr. Chairman, of course I believe that stoutly, otherwise I would not have been associated with this work. I firmly believe that with the proper safeguards of provincial rights social security does make a very definite contribution to national unity. I do not regard myself as being "out on a limb" when I say that I believe it with firm conviction.

As to the matter of constitutional clarification, however, my impressions—I do not put them any stronger than that—probably coincide with Senator Lambert's. On post-war problems there is a very strong feeling that the Federal Government must take the lead and provide a large share of the finances. I do not think there is any question about that. It is a very reasonable view. As

applied to social security matters, I am not so sure there has been much clarification yet, except on the one point that Senator Lambert himself has mentioned, the feeling that there ought to be a technical conference on the administration of social insurances. I think I have made the suggestion myself that there is need for some simple mechanism, nothing elaborate, nothing unnecessarily formidable, for the handling of the national finances of social security.

It seems to me utterly reasonable that there should be some body or office in Ottawa whose main concern would be with the finances of all social security measures. That does not in my thinking in the least preclude the possibility of provincial administration in a number of things. I feel personally, for instance, that even in unemployment insurance, where we have a national scheme, provincial rights have not been in any way transgressed. Of course, I speak subject to correction. We have all kinds of regional and divisional administration. After all, the people who administer the unemployment exchanges come from Quebec and the other provinces. I do not think there is any real constitutional issue.

Hon. Mr. LAMBERT: There is no issue on administration; there is on the financial aspect.

Dr. MARSH: The taxation problem will always be the same as long as our main industrial centres are where they are to-day. We have to face up to that.

Here is my final thought. There is need for constitutional clarification. I use the word "clarification" quite deliberately. It seems to me a number of these things we do not discuss with sufficient frankness because we think there is a constitutional issue involved. I am no lawyer, but with respect to concurrent jurisdiction I would point out that agriculture is a subject in which both the provinces and the Dominion have certain rights, with resultant confusion. I think undoubtedly constitutional clarification ought to be a matter of agreement.

Hon. Mr. LAMBERT: Is it not really indispensable to the plan?

Dr. MARSH: Unquestionably. My feeling is that there should be opportunity for proper discussion. Let us find out what things can be most effectively administered provincially. Let us reach an agreement and say, "We are going to assign responsibilities in such and such a way." I think if the points were put properly there should not be any room for disagreement. I may be too optimistic, I am only an ordinary citizen, I am not a lawyer, and I do not profess to be a statesman, but it seems to me there should be no difficulty in proceeding with social security. I think the people of Canada want social security legislation. It should, however, be explained to them that social security implies responsibilities as well as benefits. I have had to take my part in explaining what those responsibilities are. I am convinced there must be some constitutional amendments if we are to have an efficient system of social security.

The CHAIRMAN: Ladies and gentlemen, if there are no further questions, the very pleasant duty develops upon me, on behalf of the subcommittee, to compliment Dr. Marsh on his presentation to us of social security, and to thank him very much for what he has said to us and for the obvious care with which he has prepared his address, and for his most intelligent and instructive replies to the questions which have been asked him.

Hon. Mr. LAMBERT: Hear, hear.

The CHAIRMAN: I think we now have a basis on which we can start our thinking in this matter. There is every likelihood that as time goes on we shall have to ask Dr. Marsh to appear before us again to deal with various points that may come up in connection with social security legislation. On behalf of the subcommittee I again wish to thank you, Dr. Marsh, for what you have been good enough to present to us.

The committee adjourned.

